UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005

Commission File Number 0-21174

AVID TECHNOLOGY, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	04-2977748
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

AVID TECHNOLOGY PARK
ONE PARK WEST
TEWKSBURY, MA 01876
(Address of principal executive offices)

Registrant's telephone number, including area code: (978) 640-6789

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 _____

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No _____

The number of shares outstanding of the registrant's Common Stock as of July 19, 2005 was 35,303,690.

AVID TECHNOLOGY, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AVID TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net revenues:				
Product	$141,434	$124,269	$288,812	$237,853
Services	18,617	15,617	37,240	29,407
Total net revenues	160,051	139,886	326,052	267,260
Cost of revenues:				
Product	61,244	52,152	122,141	98,666
Services	10,027	8,843	20,097	16,432
Amortization of intangible assets	282	-	563	-
Total cost of revenues	71,553	60,995	142,801	115,098
Gross profit	88,498	78,891	183,251	152,162
Operating expenses:				
Research and development	24,909	22,924	49,588	45,216
Marketing and selling	40,163	33,656	79,810	63,510
General and administrative	8,761	6,184	17,258	12,070
Amortization of intangible assets	1,593	549	3,185	988
Total operating expenses	75,426	63,313	149,841	121,784
Operating income	13,072	15,578	33,410	30,378
Interest income	1,052	599	1,860	1,139
Interest expense	(95)	(62)	(189)	(145)
Other income (expense), net	222	58	345	(959)
Income before income taxes	14,251	16,173	35,426	30,413
Provision for income taxes	685	700	2,114	200
Net income	$13,566	$15,473	$33,312	$30,213
Net income per common share - basic	$0.39	$0.49	$0.95	$0.96
Net income per common share - diluted	$0.37	$0.45	$0.90	$0.89
Weighted average common shares outstanding - basic	35,177	31,623	35,083	31,413
Weighted average common shares outstanding - diluted	37,024	34,134	37,154	33,912

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

AVID TECHNOLOGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(unaudited)

	June 30, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$123,639	$79,058
Marketable securities	68,914	76,361
Accounts receivable, net of allowances of $9,358 and $9,334 at June 30, 2005 and December 31, 2004, respectively	99,132	97,536
Inventories	63,492	53,946
Current deferred tax assets, net	610	653
Prepaid expenses	10,444	7,550
Other current assets	11,598	11,204
Total current assets	377,829	326,308
Property and equipment, net	29,976	29,092
Goodwill	167,211	165,803
Intangible assets, net	43,139	46,884
Long-term deferred tax assets, net	4,348	4,184
Other assets	4,286	3,963
Total assets	$626,789	$576,234
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$28,960	$26,517
Accrued compensation and benefits	20,035	30,468
Accrued expenses and other current liabilities	41,338	34,902
Income taxes payable	10,408	9,357
Deferred revenues	59,244	48,680
Total current liabilities	159,985	149,924
Long-term liabilities	1,465	1,689
Total liabilities	161,450	151,613
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock	353	348
Additional paid-in capital	555,766	546,849
Accumulated deficit	(89,463)	(122,775)
Deferred compensation	(2,858)	(4,392)
Accumulated other comprehensive income	1,541	4,591
Total stockholders' equity	465,339	424,621
Total liabilities and stockholders' equity	$626,789	$576,234

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

AVID TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$33,312	$30,213
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,660	6,699
Provision for (recovery of) doubtful accounts	625	(188)
Gain on disposal of fixed assets	(55)	--
Compensation expense from stock grants and options	1,514	26
Equity in income of non-consolidated company	(164)	(59)
Deferred tax provision	(345)	--
Changes in operating assets and liabilities:		
Accounts receivable	(3,734)	(7,734)
Inventories	(10,169)	3,947
Prepaid expenses and other current assets	(3,763)	(1,848)
Accounts payable	2,577	3,707
Income taxes payable	1,001	379
Accrued expenses, compensation and benefits	(4,015)	(4,617)
Deferred revenues	10,768	5,559
NET CASH PROVIDED BY OPERATING ACTIVITIES	38,212	36,084
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(8,221)	(6,528)
Payments for other long-term assets	(311)	(349)
Payments for business acquisitions, net of cash acquired	--	(43,899)
Purchases of marketable securities	(27,255)	(43,946)
Proceeds from sales and maturities of marketable securities	34,401	51,785
NET CASH USED IN INVESTING ACTIVITIES	(1,386)	(42,937)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	(30)	(324)
Proceeds from issuance of common stock under employee stock plans	8,922	11,841
NET CASH PROVIDED BY FINANCING ACTIVITIES	8,892	11,517
Effect of exchange rate changes on cash and cash equivalents	(1,137)	(1,597)
Net increase (decrease) in cash and cash equivalents	44,581	3,067
Cash and cash equivalents at beginning of period	79,058	77,123
Cash and cash equivalents at end of period	$123,639	$80,190

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

PART I. FINANCIAL INFORMATION
ITEM 1D. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. FINANCIAL INFORMATION

The accompanying condensed consolidated financial statements include the accounts of Avid Technology, Inc. and its wholly-owned subsidiaries (collectively, "Avid" or the "Company"). These financial statements are unaudited. However, in the opinion of management, the condensed consolidated financial statements include all adjustments, consisting of only normal, recurring adjustments, necessary for their fair presentation. Interim results are not necessarily indicative of results expected for a full year. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include all information and footnotes necessary for a complete presentation of operations, financial position, and cash flows of the Company, in conformity with generally accepted accounting principles. The accompanying condensed consolidated balance sheet as of December 31, 2004 was derived from Avid's audited consolidated financial statements, but does not include all disclosures required by generally accepted accounting principles. The Company filed audited consolidated financial statements for the year ended December 31, 2004 in its 2004 Annual Report on Form 10-K, which included all information and footnotes necessary for such presentation; the financial statements contained in this Form 10-Q should be read in conjunction with the audited consolidated financial statements in the Form 10-K.

The Company's preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. The most significant estimates reflected in these financial statements include accounts receivable and sales allowances, purchase accounting, inventory valuation and income tax asset valuation allowances. Actual results could differ from those estimates.

In connection with preparation of the Company's Annual Report on Form 10-K for the year ended December 31, 2004, the Company concluded that it was appropriate to classify its investments in auction rate securities as marketable securities. Previously, such investments were classified as cash and cash equivalents. Accordingly, the Company has revised the classification to exclude from cash and cash equivalents $18.0 million of auction rate securities at June 30, 2004, and to include such amounts as marketable securities. In addition, the Company has made corresponding adjustments to the accompanying statement of cash flows to reflect the gross purchases and sales of these securities as investing activities. As a result, cash used in investing activities decreased by $7.5 million for the six months ended June 30, 2004. This change in classification does not affect previously reported cash flows from operations or from financing activities.

2. NET INCOME PER COMMON SHARE

Basic and diluted net income per share were calculated as follows (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net income	$13,566	$15,473	$33,312	$30,213
Weighted average common shares outstanding - basic	35,177	31,623	35,083	31,413
Weighted average potential common stock:				
Options	1,707	2,452	1,866	2,493
Warrant	140	59	205	6
Weighted average common shares outstanding - diluted	37,024	34,134	37,154	33,912
Net income per common share - basic	$0.39	$0.49	$0.95	$0.96
Net income per common share - diluted	$0.37	$0.45	$0.90	$0.89

Common stock options that were considered anti-dilutive securities since their exercise prices exceeded the average market price of the underlying common stock during the period and, accordingly, were excluded from the diluted net income per share calculations, were as follows, on a weighted-average basis (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Total anti-dilutive common stock options	852	96	564	166

3. ACQUISITIONS

M-Audio

In August 2004, Avid completed the acquisition of Midiman, Inc. d/b/a M-Audio ("M-Audio"), a leading provider of digital audio and MIDI (Musical Instrument Digital Interface) solutions for musicians and audio professionals. Avid paid cash of $79.6 million, net of cash acquired, and issued stock and options with a fair value of $96.5 million. The total purchase price was allocated as follows: $13.5 million to net assets acquired, $5.5 million to deferred compensation, $38.4 million to identifiable intangible assets, and the remaining $122.0 million to goodwill.

As part of the purchase agreement, Avid may be required to make additional payments to the former shareholders and option holders of M-Audio of up to $45.0 million, contingent upon the operating results of M-Audio through December 31, 2005. These payments, if required, will be made through the issuance of additional Avid shares or options based on the ten-day average closing price of the stock ending two days prior to the date the earn-out shares are distributed. Any such additional Avid shares issued to the former shareholders of M-Audio will be recorded as additional purchase price allocated to goodwill. Any such additional Avid options issued to former option holders of M-Audio will be recorded as stock-based compensation expense because future service is required for it to be earned. As of June 30, 2005, no additional shares or options are due and thus, no amount has been recorded as additional purchase price.

The identifiable intangible assets are being amortized over their estimated useful lives of twelve years for customer relationships, six years for the trade name, four years for the developed technology and two years for the non-compete covenant. The twelve year life for customer relationships, although longer than that used for similar intangible assets for other acquisitions by Avid, is considered reasonable due to the similarities in their business to Avid's Digidesign division, which has enjoyed long-term relationships with its customers. Amortization expense totaled $1.2 million for the three months ended June 30, 2005 and accumulated amortization of these intangible assets was $4.2 million at June 30, 2005. Also during the second quarter of 2005, the $122.0 million of goodwill was reduced by $0.2 million to $121.8 million due to the resolution of a tax contingency.

Avid Nordic AB

In September 2004, the Company acquired Avid Nordic AB, a Sweden-based exclusive reseller of Avid products operating in the Nordic and Benelux regions of Europe, for cash, net of cash acquired, of euro 6.1 million ($7.4 million) plus transaction costs of $0.3 million. The purchase price was allocated as follows: $1.0 million to net assets acquired, $4.7 million to an identifiable intangible asset, and the remaining $2.0 million to goodwill.

The identifiable intangible asset represents customer relationships developed in the region by Avid Nordic AB. This asset will be amortized over its estimated useful life of five years. Amortization expense totaled $0.2 million for the three months ended June 30, 2005 and accumulated amortization of this asset was $0.8 million at June 30, 2005. During the quarter ended December 31, 2004, the goodwill was increased by $0.4 million to $2.4 million due to a reduction in the estimated fair value of inventory and other current assets acquired from Avid Nordic AB.

As part of the purchase agreement, Avid may be required to make additional payments to the former shareholders of Avid Nordic AB of up to euro 1.3 million contingent upon the operating results of Avid Nordic AB through August 31, 2005. These payments will be recorded as additional purchase consideration, allocated to goodwill. Through the six months ended June 30, 2005 the Company estimated that maximum additional purchase consideration of euro 1.3 million ($1.6 million) had been earned and accordingly recorded an increase to goodwill of $1.6 million with the corresponding offset in accrued expenses.

NXN Software GmbH

In January 2004, Avid acquired Munich, Germany-based NXN Software GmbH ("NXN"), a leading provider of asset and production management systems specifically targeted for the entertainment and computer graphics industries, for cash of euro 35 million ($43.7 million) less cash acquired of $0.8 million. The total purchase price was allocated as follows: ($1.0 million) to net liabilities assumed, $7.2 million to identifiable intangible assets and the remaining $38.8 million to goodwill.

The identifiable intangible assets include completed technology valued at $4.3 million, customer relationships valued at $2.1 million, and a trade name valued at $0.8 million, which are being amortized over their estimated useful lives of four to six years, three to six years, and six years, respectively. Amortization expense relating to these intangibles was $0.3 million for the three months ended June 30, 2005 and accumulated amortization of these assets was $1.5 million at June 30, 2005. In December 2004, the Company reviewed the identifiable intangible assets acquired in the NXN transaction and found the customer relationships intangible assets and the trade name to be impaired. The Company recalculated the fair values of these intangible assets based on revised expected future cash flows reflecting the contract renegotiations and recorded a charge of $1.2 million in December 2004 to write them down to their revised fair values. Also during the year ended December 31, 2004, the $38.8 million of goodwill was reduced by $0.7 million to $38.1 million due to finalizing the estimated fair value of deferred revenue acquired from NXN.

Pro Forma Financial Information for Acquisitions (Unaudited)

The results of operations of M-Audio, Avid Nordic and NXN have been included in the results of operations of the Company since the respective date of each acquisition. The following unaudited pro forma financial information presents the results of operations for the three and six months ended June 30, 2004 as if the acquisitions of both M-Audio and NXN had occurred at the beginning of 2004. The Company's pro forma results of operations giving effect to the Avid Nordic AB acquisition as if it had occurred at the beginning of 2004 is not included as it would not differ materially from reported results. The pro forma financial information for the combined entities has been prepared for comparative purposes only and is not indicative of what actual results would have been if the acquisitions had taken place at the beginning of fiscal 2004, or of future results.

	Three Months Ended June 30,	Six Months Ended June 30,
	2004	2004
(In thousands, except per share data)		
Net revenues	$155,298	$300,588
Net income	$14,123	$27,601
Net income per share:		
Basic	$0.42	$0.83
Diluted	$0.39	$0.76

Agreement to Acquire Pinnacle Systems, Inc.

On March 21, 2005, the Company announced that it had entered into a definitive agreement to acquire Pinnacle Systems, Inc. (Pinnacle) in a cash and stock transaction. Pinnacle, based in California, is a supplier of digital video products to a variety of customers, ranging from individuals with little or no experience, to broadcasters with specific and sophisticated requirements. Under the terms of the agreement, Pinnacle shareholders will receive 0.0869 shares of Avid stock and $1.00 in cash for each Pinnacle share. At closing, it is expected that Avid will issue approximately 6.2 million shares and pay approximately $71.3 million in cash to Pinnacle shareholders. On July 27, 2005, both Avid and Pinnacle shareholders approved proposals necessary to allow Avid's acquisition of Pinnacle to move forward. The transaction is expected to close in the third quarter of 2005.

4. ACCOUNTS RECEIVABLE

Accounts receivable, net consisted of the following (in thousands):

	June 30, 2005	December 31, 2004
Accounts receivable	$108,489	$106,870
Less:		
Allowance for doubtful accounts	(4,192)	(4,132)
Allowance for sales returns and rebates	(5,165)	(5,202)
	$99,132	$97,536

The allowance for doubtful accounts represents an allowance for estimated bad debt losses resulting from the inability of our customers to make required payments for products or services. When evaluating the adequacy of the allowances, the Company analyzes accounts receivable balances, historical bad debt experience, customer concentrations, customer credit-worthiness and current economic trends. Allowances for estimated returns, exchanges and credits for price protection are provided as a reduction of revenues, in the same period that related revenues are recorded, based upon the Company's historical experience. To date, actual returns have not differed materially from management's estimates. Allowances for rebates on purchases of certain products, or rebates based on purchasing volume, are also accounted for as reductions to revenue, in the same period that related revenues are recorded, or upon expected achievement of purchasing volumes.

5. INVENTORIES

Inventories consisted of the following (in thousands):

	June 30, 2005	December 31, 2004
Raw materials	$22,064	$14,925
Work in process	4,820	3,622
Finished goods	36,608	35,399
	$63,492	$53,946

As of June 30, 2005 and December 31, 2004, the finished goods inventory included inventory at customer locations of $10.2 million and $9.0 million, respectively, associated with product shipped to customers for which revenue had not yet been recognized.

6. ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for stock-based awards to employees using the intrinsic value method as prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, no compensation expense is recorded for options issued to employees in fixed amounts and with fixed exercise prices at least equal to the fair market value of the Company's common stock at the date of grant. When the exercise price of stock options granted to employees is less than the fair market value of common stock at the date of grant, the Company records that difference multiplied by the number of shares under option as deferred compensation, which is then amortized over the vesting period of the options. Additionally, deferred compensation is recorded for restricted stock granted to employees based on the fair market value of the Company's common stock at date of grant and is amortized over the period in which the restrictions lapse. The Company reverses deferred compensation associated with unvested options issued at below fair market value as well as unvested restricted stock upon the cancellation of such options or shares for terminated employees. The Company provides the disclosures required by SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure". All stock-based awards to non-employees are accounted for at their fair value in accordance with SFAS No. 123. There were no stock-based awards granted to non-employees during the three- and six-month periods ended June 30, 2005 or 2004.

The following table illustrates the effect on net income and net income per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee awards (in thousands, except per share data).

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Net income as reported	$13,566	$15,473	$33,312	$30,213
Add: Stock-based employee compensation expense included in reported net income, net of related tax effect	672	13	1,514	26
Deduct: Total stock-based employee compensation expense determined under the fair value-based method for all awards, net of related tax effect	(5,904)	(3,940)	(10,724)	(7,311)
Pro forma net income	$8,334	$11,546	$24,102	$22,928
Net income per common share:				
Basic-as reported	$0.39	$0.49	$0.95	$0.96
Basic-pro forma	$0.24	$0.37	$0.69	$0.73
Diluted-as reported	$0.37	$0.45	$0.90	$0.89
Diluted-pro forma	$0.23	$0.34	$0.66	$0.68

Under SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model and is amortized over the stock option's vesting period.

7. COMMITMENTS AND CONTINGENCIES

Avid receives inquiries from time to time with regard to possible patent infringement claims. If any infringement is determined to exist, the Company may seek licenses or settlements. In addition, as a normal incidence of the nature of the Company's business, various claims, charges, and litigation have been asserted or commenced against the Company arising from or related to contractual or employee relations, intellectual property rights or product performance. Management does not believe these claims will have a material adverse effect on the financial position or results of operations of the Company.

In April 2005, we were notified by the Korean Federal Trade Commission ("KFTC") that a former reseller, Neat Information Telecommunication, Inc. ("Neat"), had filed a complaint against us alleging unfair trade practices. Neat, one of several resellers of our products in South Korea, was terminated by us in September 2003. The KFTC is currently interviewing both parties and will determine whether to proceed with a formal investigation. We believe that the complaint is without merit and will defend ourselves vigorously in the event that the KFTC determines to proceed with a formal investigation. Our business in South Korea represented less than 1% of our total revenues for 2004. Because we cannot predict the outcome of this matter at this time, no costs have been accrued for this possible loss contingency.

From time to time, the Company provides indemnification provisions in agreements with customers covering potential claims by third parties that Avid products infringe their intellectual property rights. Pursuant to these indemnification provisions, the Company agrees to indemnify customers for losses that they suffer or incur in connection with any valid U.S. patent or copyright infringement claim brought by a third party with respect to Avid products. These indemnification provisions generally offer perpetual coverage for infringement claims based upon the products covered by the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is theoretically unlimited; however, to date, the Company has not received any claims under these indemnification provisions. As a result, the Company believes the estimated fair value of these indemnification provisions is minimal.

As permitted under Delaware law, Avid has agreements whereby the Company indemnifies its officers and directors for certain events or occurrences while the officer or director is or was serving at Avid's request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, Avid has mitigated the exposure through the purchase of directors and officers insurance, which is intended to limit the risk and, in most cases, enable the Company to recover all or a portion of any future amounts paid. As a result of this insurance policy coverage and Avid's related payment experience to date, the Company believes the estimated fair value of these indemnification agreements is minimal.

The Company has a standby letter of credit at a bank that is used as a security deposit in connection with the Company's Daly City, California office space lease. In the event of default on this lease, the landlord would be eligible to draw against this letter of credit to a maximum, as of June 30, 2005, of $3.5 million, subject to an annual reduction of approximately $0.8 million but not below $2.0 million. The letter of credit will remain in effect at $2.0 million throughout the remaining lease period, which extends to September 2009. As of June 30, 2005, the Company was not in default of this lease.

The Company, through a third party, provides lease financing options to its customers, including end-users and, on a very limited basis, resellers. During the terms of these leases, which are generally three years, the Company remains liable for any unpaid principal balance upon default by the end-user, but such liability is limited in the aggregate based on a percentage of initial amounts funded or, in certain cases, amounts of unpaid balances. At June 30, 2005 and December 31, 2004, Avid's maximum recourse exposure totaled approximately $14.1 million and $17.2 million, respectively. The Company records revenue from these transactions upon the shipment of products, provided that all other revenue recognition criteria, including collectibility being reasonably assured, are met. Because the Company has been providing these financing options to its customers for many years, the Company has a substantial history of collecting under these arrangements without providing refunds or concessions to the end user or financing party. To date, the payment default rate has consistently been between 2% and 4% per year of the original funded amount. This low default rate results from the diligence of the third party leasing company in screening applicants and in collecting amounts due, and also because Avid actively monitors its exposures under the financing program and participates in the approval process for any lessees outside of agreed-upon credit-worthiness metrics. The Company maintains a reserve for estimated losses under this recourse lease program based on these historical default rates compared to the funded amount outstanding at period end. At June 30, 2005 and December 31, 2004, the Company's accrual for estimated losses was $1.9 million and $2.2 million, respectively.

Avid provides warranty on hardware sold through its Video segment which generally mirrors the manufacturers' warranties. The Company charges the related material, labor and freight expense to cost of revenues in the period incurred. With respect to the Audio segment, Avid provides warranty on externally sourced and internally developed hardware and records an accrual for the related liability based on historical trends and actual material and labor costs. The warranty period for all of the Company's products is generally 90 days to one year but can extend up to five years depending on the manufacturer's warranty or local law.

The following table sets forth the activity in the product warranty accrual account (in thousands):

	Six Months Ended June 30, 2005
Accrual balance at December 31, 2004	$2,261
Accruals for product warranties	2,244
Cost of warranty claims	(1,727)
Accrual balance at June 30, 2005	$2,778

8. COMPREHENSIVE INCOME

Total comprehensive income, net of taxes, consists of net income, the net changes in foreign currency translation adjustment and net unrealized gains and losses on available-for-sale securities. The following is a summary of the Company's comprehensive income (in thousands):

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Net income	$13,566	$15,473	$33,312	$30,213
Net changes in:				
Foreign currency translation adjustment	(1,923)	(803)	(3,186)	(1,383)
Unrealized gains (losses) on securities	74	(362)	135	(306)
Total comprehensive income	$11,717	$14,308	$30,261	$28,524

9. SEGMENT INFORMATION

The Company's organizational structure is based on strategic business units that offer various products to the principal markets in which the Company's products are sold. These business units equate to two reportable segments: Video and Film Editing and Effects, and Audio. The following is a summary of the Company's operations by reportable segment (in thousands):

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Video and Film Editing and Effects:				
Net revenues	$94,984	$96,431	$199,469	$188,410
Operating income	$7,083	$7,967	$22,198	$21,311
Audio:				
Net revenues	$65,067	$43,455	$126,583	$78,850
Operating income	$8,465	$8,160	$16,332	$10,055
Combined Segments:				
Net revenues	$160,051	$139,886	$326,052	$267,260
Operating income	$15,548	$16,127	$38,530	$31,366

The following table reconciles operating income for reportable segments to the total consolidated amounts for the three and six month periods ended June 30, 2005 and 2004 (in thousands):

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Total operating income for reportable segments	$15,548	$16,127	$38,530	$31,366
Unallocated amounts:				
Stock-based compensation	(601)	-	(1,372)	-
Amortization of acquisition-related intangible assets	(1,875)	(549)	(3,748)	(988)
Consolidated operating income	$13,072	$15,578	$33,410	$30,378

10. RESTRUCTURING AND OTHER COSTS, NET

In December 2002, the Company recorded a charge of $3.3 million in connection with vacating excess space in its Tewksbury, Massachusetts; Daly City, California; and Montreal, Canada facilities. The Daly City estimate was revised, and an additional charge of $1.5 million was recorded in the fourth quarter of 2003.

The Company recorded the December 2003 and 2002 charges in accordance with the guidance of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 requires that a liability be recognized for an operating lease that is not terminated based on the estimated remaining lease rental costs, measured at its fair value on a discounted cash flow basis, when the entity ceases using the rights conveyed by the operating lease. That amount is reduced by any estimated sublease rentals, regardless of whether the entity intends to enter into a sublease. Future changes in the fair value of the Company's obligations are recorded through operating expenses. These restructuring charges and accruals require significant estimates and assumptions, including sub-lease income assumptions. These estimates and assumptions are monitored on at least a quarterly basis for changes in circumstances and any corresponding adjustments to the accrual are recorded in the period when such changes are known.

The following table sets forth the activity in the restructuring and other costs accrual, which is included in Accrued expenses and other current liabilities, for the six months ended June 30, 2005 (in thousands):

Accrual balance at December 31, 2004	$3,534
Cash payments, net	(702)
Accrual balance at June 30, 2005	$2,832

The leases, and payments against the amount accrued, extend through 2010 unless the Company is able to negotiate an earlier termination.

11. RECENT ACCOUNTING PRONOUNCEMENTS

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, "Inventory Costs", an amendment of Accounting Research Bulletin No. 43, which is the result of its efforts to converge U.S. accounting standards for inventories with International Accounting Standards. SFAS No. 151 requires idle facility expenses, freight, handling costs, and wasted material (spoilage) costs to be recognized as current-period charges. It also requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005 (i.e. beginning January 1, 2006 for the Company). The Company is currently evaluating the impact of SFAS No. 151 on its consolidated financial statements. The adoption of this standard is not expected to have a material impact on the Company's financial position or results of operations.

On December 16, 2004, the FASB released SFAS No. 123R. This new accounting standard requires all forms of stock compensation, including stock options issued to employees, to be reflected as an expense in the Company's financial statements. On April 14, 2005, the Securities and Exchange Commission approved a new rule that delays the effective date of SFAS No. 123R. Under the new rule, SFAS No. 123R is now effective for public companies for annual, rather than interim, periods that begin after June 15, 2005. SFAS No. 123R allows three alternative methods of transitioning to the standard: modified prospective application ("MPA"); modified retrospective application ("MRA") to all prior periods; or MRA to only interim periods of the year of adoption. The Company intends to use the MPA without restatement alternative and to apply the revised standard beginning January 1, 2006. Under the modified prospective application, all unvested awards that were previously included as part of the pro forma net income disclosure and are outstanding on the effective date would be charged to expense over the remaining vesting period, without any changes in measurement. All new awards that are granted or modified after the effective date will be expensed using the FAS 123R measurement model. Although the Company has not finalized its analysis, it expects that the adoption of the revised standard will result in higher operating expenses and lower earnings per share. See Footnote 6, Accounting for Stock-Based Compensation, for the pro forma impact on net income and income per common share as if the Company had historically applied the fair value recognition provisions of SFAS No. 123 to stock based employee awards.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 ("the Act"). The Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends-received deduction for certain dividends from controlled foreign corporations. The Act also creates a deduction on a percentage of the lesser of qualified production activities income or taxable income. Although these deductions are subject to a number of limitations and significant uncertainty remains as to how to interpret numerous provisions in the Act, the Company believes that it has the information necessary to make an informed decision on the impact of the Act. Based on the information available, the Company has determined that its cash position in the U.S. is sufficient to fund anticipated needs. The Company also believes that the repatriation of income earned abroad would result in significant foreign withholding taxes that otherwise would not have been incurred as well as additional U.S. tax liabilities that may not be sufficiently offset by foreign tax credits. Therefore, the Company does not currently plan to repatriate any income earned abroad. The Company has also determined that the qualified production activities deduction will not have a material impact on the fiscal 2005 tax provision due to the expected amount of taxable income. These initial findings could change based on clarification of the rules and changes in facts and circumstances of the Company's operations and/or cash requirements in the U.S.

PART I. FINANCIAL INFORMATION

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

OVERVIEW

We develop, market, sell and support a wide range of software and hardware for digital media production, management and distribution. Digital media are video, audio or graphic elements in which the image, sound or picture is recorded and stored as digital values, as opposed to analog, or tape-based, signals. Our diverse range of product and service offerings enables customers to "Make, Manage and Move Media."

Make Media. Our Video and Film Editing and Effects ("Video") segment offers digital, non-linear video and film editing systems and 3D and special-effects software that enable users to manipulate moving pictures and sound in a faster, easier, more creative, and more cost-effective manner than using traditional analog tape-based systems. Non-linear systems allow editors to access material instantaneously rather than requiring them to work sequentially. Our Audio segment offers digital audio software applications and hardware systems for music, film, television, video, broadcast, streaming media, and web development. These systems are based upon proprietary audio hardware, software, and control surfaces, and allow users to record, edit, mix, process, and master audio in an integrated manner.

Manage Media. We provide complete network, storage, and database solutions based on our Avid Unity MediaNetwork technology. This technology enables users to simultaneously share and manage media assets throughout a project or organization. The ability to manage digital media assets effectively is a critical component of success for many broadcast and media companies with multiple nonlinear editing workstations in a range of geographic locations. As a result, professionals can collaborate seamlessly on all production elements, and streamline the process for cost-effectively delivering compelling media experiences and quickly "re-purposing" or finding new uses or markets for media assets.

Move Media. We offer products that allow our customers to distribute media over multiple platforms - including air, cable or satellite, or through the Internet. In addition, we provide technology for playback directly to air for broadcast television applications. Many of our products also support the broadcast of streaming Internet video.

Our products are used worldwide in production and post-production facilities; film studios; network, affiliate, independent and cable television stations; recording studios; advertising agencies; government and educational institutions; corporate communication departments; and by game developers and Internet professionals. Projects produced by our customers using our products have been honored with Oscar(R), Emmy(R), and Grammy(R) awards, as well as a host of other international awards. In addition, we have also received numerous awards for technical innovations, including Oscars, Emmys and a Grammy. Oscar is a registered trademark and service mark of the Academy of Motion Picture Arts and Sciences. Emmy is a registered trademark of ATAS/NATAS. Grammy is a registered trademark of The National Academy of Recording Arts and Sciences, Inc.

An important part of our strategy for the past few years has included expanding and enhancing our product lines and increasing revenues through both acquisitions and internal development of products. In January 2004, we acquired Germany-based NXN Software GmbH ("NXN"), a leading provider of asset and production management systems specifically targeted for the entertainment and computer graphics industries. This acquisition expands our offering in digital asset management by enabling our film and video post-production, broadcast, audio and 3D animation customers to leverage the workflow capabilities of the NXN Alienbrain(R) product line. NXN has been integrated into our Video segment. In August 2004, we completed the acquisition of California-based M-Audio, a leading provider of digital audio and MIDI solutions for musicians and audio professionals. We have integrated M-Audio into our Audio segment and are marketing its line of audio products alongside Digidesign's digital audio workstations for the professional and home/hobbyist markets. Finally, in September 2004, we acquired Avid Nordic AB, a Sweden-based exclusive reseller of our products operating in the Nordic and Benelux regions of Europe. This acquisition allows us to directly serve customers in this region.

On March 20, 2005, we entered into a definitive agreement to acquire California-based Pinnacle Systems, Inc. Pinnacle is a supplier of digital video products to a variety of customers, ranging from individuals with little or no experience, to broadcasters with specific and sophisticated requirements. Under the terms of the agreement, Pinnacle shareholders will receive 0.0869 shares of

Avid stock and $1.00 in cash for each Pinnacle share. At closing, it is expected that Avid will issue approximately 6.2 million shares and pay $71.3 million in cash to Pinnacle shareholders. On July 27, 2005, both Avid and Pinnacle shareholders approved proposals necessary to allow Avid's acquisition of Pinnacle to move forward. The transaction is expected to close in the third quarter of 2005.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles and our discussion and analysis of our financial condition and results of operations requires us to make judgments, assumptions, and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Note B of the Notes to Consolidated Financial Statements in our 2004 Annual Report on Form 10-K describes the significant accounting policies and methods used in the preparation of our consolidated financial statements. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates.

We believe that our critical accounting policies are those related to revenue recognition and allowances for product returns and exchanges, allowance for bad debts and reserves for recourse under financing transactions, inventories, business combinations, goodwill and intangible assets and income tax assets. We believe these policies are critical because they are important to the portrayal of our financial condition and results of operations, and they require us to make judgments and estimates about matters that are inherently uncertain. Additional information about these critical accounting policies may by found in our 2004 Annual Report on Form 10-K in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Critical Accounting Policies and Estimates."

RESULTS OF OPERATIONS

Net Revenues

We develop, market, sell and support a wide range of software and hardware for digital media production, management and distribution. Our net revenues are derived mainly from the sales of computer-based digital, nonlinear media editing systems and related peripherals, licensing of related software, and sales of related software maintenance contracts. We are organized into strategic business units that reflect the principal markets in which our products are sold: Video and Audio. These business units are at the level for which separate financial information is available and evaluated regularly by us when deciding how to allocate resources and assessing performance. As such, our business units represent our reportable segments under SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information".

Our Video segment produces non-linear video and film editing systems to improve the productivity of video and film editors and broadcasters by enabling them to edit moving pictures and sound in a faster, easier, more creative and more cost-effective manner than by use of traditional analog tape-based systems. The products in this operating segment are designed to provide capabilities for editing and finishing feature films, television shows, broadcast news programs, commercials, music videos and corporate and home videos. Our Audio segment produces digital audio systems for the audio market. This operating segment includes products developed to provide audio recording, editing, signal processing and automated mixing. This segment also includes our M-Audio product family acquired in August 2004.

The following is a summary of our net revenues by segment for the three- and six-month periods ended June 30, 2005 and 2004 (dollars in thousands):

	Three Months Ended June 30,					
	2005 Net Revenues	% of Consolidated Net revenues	2004 Net Revenues	% of Consolidated Net Revenues	Change	% Change in revenues
Video and Film Editing and Effects						
Product Revenues:	$76,727	47.9%	$80,814	57.8%	($4,087)	(5.1%)
Service Revenues:	18,257	11.4%	15,617	11.1%	2,640	16.9%
Total	94,984	59.3%	96,431	68.9%	(1,447)	(1.5%)

Audio						
Product Revenues:	64,707	40.5%	43,455	31.1%	21,252	48.9%
Service Revenues:	360	0.2%	--	0.0%	360	100.0%
Total	65,067	40.7%	43,455	31.1%	21,612	49.7%
Total Net Revenues:	$160,051	100.0%	$139,886	100.0%	$20,165	14.4%

	Six Months Ended June 30,					
	2005 Net Revenues	% of Consolidated Net revenues	2004 Net Revenues	% of Consolidated Net revenues	Change	% Change in revenues
Video and Film Editing and Effects						
Product Revenues:	$162,867	50.0%	$159,003	59.5%	$3,864	2.4%
Service Revenues:	36,602	11.2%	29,407	11.0%	7,195	24.5%
Total	199,469	61.2%	188,410	70.5%	11,059	5.9%
Audio						
Product Revenues:	125,945	38.6%	78,850	29.5%	47,095	59.7%
Service Revenues:	638	0.2%	--	0.0%	638	100.0%
Total	126,583	38.8%	78,850	29.5%	47,733	60.5%
Total Net Revenues:	$326,052	100.0%	$267,260	100.0%	$58,792	22.0%

We estimate that 75%, or $3.1 million, of the decrease in net product revenues in our Video segment in the three-month period ended June 30, 2005 as compared to the same period in 2004, was related to decreased unit sales volume of certain key products. The decrease in unit sales volume is due in part to new product or feature delays, which impact both product sales as well as the timing of recognition of revenue for solutions sales pending release of the new product or feature. The remaining 25%, or $1.0 million decrease in net product revenues is attributed to lower average selling prices of our products. Average selling prices include the mix of products (high or low-end) sold, impact of changes in foreign currency exchange rates and the impact of price changes and discounting. We estimate that 38%, or $1.5 million, of the increase in net product revenues in our Video segment in the six-month period ended June 30, 2005 as compared to the same period in 2004 was related to increased unit sales volume of our products. The remaining 62%, or $2.4 million, increase in net product revenues is attributed to higher average selling prices of our products.

For the Audio segment, 91% and 82%, or $19.6 million and $39.2 million of the increase in net revenues for the three- and six-month periods ended June 30, 2005, respectively, was due to M-Audio, which was acquired in August 2004. We also saw increases in our core Digidesign Pro Tools products for the professional and home markets in the three- and six-month periods ended June 30, 2005 as compared to the same periods in 2004.

For the three- and six-month periods ended June 30, 2005, the increase in service revenues comes primarily from increases in maintenance contracts sold on our products as well as increased professional services such as installation services provided in connection with large broadcast news deals.

Net revenues derived through indirect channels were 69% and 71% for the three month periods ended June 30, 2005 and 2004, respectively. Indirect channel revenues were 68% and 73% of net revenues for the six-month periods ended June 30, 2005 and 2004. The increase in direct selling from 2004 to 2005 for both the three- and six- month periods was due primarily to the acquisition of Avid Nordic AB in September 2004 and to the growth in sales to our broadcast news customers, which are generally direct sales.

For both the three- and six-month periods ended June 30, 2005, international sales (i.e. sales to customers outside the United States) accounted for 54% and 55%, respectively, of our net revenues compared to 51% and 49%, respectively, for the same periods in 2004. International sales increased by $15.3 million or 22% and $48.5 million or 37% for the three- and six-months periods ended June 30, 2005, respectively, from the corresponding 2004 periods. The increase in international sales in 2005 occurred in all regions including Europe, Asia, Canada and Latin America, and was primarily due to an increased number of large broadcast deals in those regions.

Gross Profit

Cost of revenues consists primarily of costs associated with the procurement of components; the assembly, testing, and distribution of finished products; warehousing; post-sales customer support costs related to maintenance contract revenue and other services; and royalties for third-party software included in our products. The resulting gross margin fluctuates based on factors such as the mix of products sold, the cost and proportion of third-party hardware and software included in the systems sold, the offering of product upgrades, price discounts and other sales promotion programs, the distribution channels through which products are sold, the timing of new product introductions, sales of aftermarket hardware products such as disk drives, and currency exchange rate fluctuations.

The following is a summary of our cost of revenues and gross margin percentages for the three-month and six-month periods ended June 30, 2005 and 2004 (dollars in thousands):

	Three Months Ended June 30,						
	2005	% of Net Related Revenues	Gross Margin %	2004	% of Net Related Revenues	Gross Margin %	Gross Margin % Change
Product Cost of Revenues	$61,244	43.3%	56.7%	$52,152	42.0%	58.0%	(1.3%)
Service Cost of Revenues	10,027	53.9%	46.1%	8,843	56.6%	43.4%	2.7%
Amortization of Technology	282	0.2%	--	--	0.0%	0.0%	--
Total	$71,553	44.7%	55.3%	$60,995	43.6%	56.4%	(1.1%)

	Six Months Ended June 30,						
	2005	% of Net Related Revenues	Gross Margin %	2004	% of Net Related Revenues	Gross Margin %	Gross Margin % Change
Product Cost of Revenues	$122,141	42.3%	57.7%	$98,666	41.5%	58.5%	(0.8%)
Service Cost of Revenues	20,097	54.0%	46.0%	16,432	55.9%	44.1%	1.9%
Amortization of Technology	563	0.2%	--	--	0.0%	0.0%	--
Total	$142,801	43.8%	56.2%	$115,098	43.1%	56.9%	(0.7%)

The decreases in the product gross margin for the three- and six-month periods ended June 30, 2005, as compared to the same period in 2004, reflect primarily the change in product mix due to the acquisition of M-Audio, as well as increased price reductions and promotions, which were partially offset by favorable impacts of foreign currency exchange rates on revenues. The service gross margin increase for the three-and six-month periods ended June 30, 2005 as compared to the same periods in 2004 primarily reflects increased service revenue volume. Our service cost infrastructure, which is primarily personnel-related, did not grow at the same rate as the revenues.

Research and Development

	Three Months Ended June 30, (dollars in thousands)			
	2005 Expenses	2004 Expenses	Change	% Change
Research and Development:	$24,909	$22,924	$1,985	8.7%
Percentage of Net Revenues:	15.6%	16.4%	(0.8%)	

	Six Months Ended June 30, (dollars in thousands)			
	2005 Expenses	2004 Expenses	Change	% Change
Research and Development:	$49,588	$45,216	$4,372	9.7%
Percentage of Net Revenues:	15.2%	16.9%	(1.7%)	

Research and development expenses include costs associated with the development of new products and enhancement of existing products, and consist primarily of employee salaries and benefits, facilities costs, depreciation, consulting and temporary help, and prototype and development expenses. For the three- and six-month periods ended June 30, 2005, the increase in research and development expenditures was primarily due to higher personnel-related costs, including the acquisition of M-Audio in August 2004, and higher consulting fees, partially offset by lower hardware development costs. Research and development expenses decreased as a percentage of net revenues primarily as a result of the higher revenue base in 2005 compared to 2004.

Marketing and Selling

	Three Months Ended June 30, (dollars in thousands)			
	2005 Expenses	2004 Expenses	Change	% Change
Marketing and Selling	$40,163	$33,656	$6,507	19.3%
Percentage of Net Revenues:	25.1%	24.1%	1.0%	

	Six Months Ended June 30, (dollars in thousands)			
	2005 Expenses	2004 Expenses	Change	% Change
Marketing and Selling	$79,810	$63,510	$16,300	25.7%
Percentage of Net Revenues:	24.5%	23.8%	0.7%	

Marketing and selling expenses consist primarily of employee salaries and benefits for sales, marketing and pre-sales customer support personnel, commissions, travel expenses, advertising and promotional expenses and facilities costs. For the three- and six-month periods ended June 30, 2005, the increase in marketing and selling expenses was primarily due to higher personnel-related costs, including salaries and related taxes and benefits, in large part due to the acquisitions of M-Audio and Avid Nordic in the third quarter of 2004. In the second quarter of 2005, these increases were partially offset by lower net foreign exchange losses (specifically, remeasurement gains and losses on net monetary assets denominated in foreign currencies, offset by hedging gains and losses), which are included in marketing and selling expenses, than we had in the second quarter of 2004. The percentage increase in marketing and selling expense was due to the reasons discussed above, with the impact being lessened by the higher revenue base in 2005.

General and Administrative

	Three Months Ended June 30, (dollars in thousands)			
	2005 Expenses	2004 Expenses	Change	% Change
General and Administrative	$8,761	$6,184	$2,577	41.7%
Percentage of Net Revenues:	5.5%	4.4%	1.1%	

	Six Months Ended June 30, (dollars in thousands)			
	2005 Expenses	2004 Expenses	Change	% Change
General and Administrative	$17,258	$12,070	$5,188	43.0%
Percentage of Net Revenues:	5.3%	4.5%	0.8%	

General and administrative expenses consist primarily of employee salaries and benefits for administrative, executive, finance and legal personnel, audit and legal fees, insurance and facilities costs. For the three and six-month periods ended June 30, 2005, the increase in general and administrative expenditures in 2005 was primarily due to higher personnel-related costs, including our acquisition of M-Audio in August 2004. We also incurred higher audit fees as a result of complying with the Sarbanes-Oxley Act of 2002. The percentage increase in general and administrative expense was due to the increases discussed above, with the impact being lessened by the higher revenue base in 2005.

Amortization of Acquisition-Related Intangible Assets

	Three Months Ended June 30, (dollars in thousands)		
	2005	2004	Change
Amortization of Intangible Assets:	$1,875	$549	$1,326
Percentage of Net Revenues:	1.2%	0.4%	0.8%

	Six Months Ended June 30, (dollars in thousands)		
	2005	2004	Change
Amortization of Intangible Assets:	$3,748	$988	$2,760
Percentage of Net Revenues:	1.1%	0.4%	0.7%

Included in amortization of intangible assets for the three- and six-month periods ended June 30, 2005 is $0.3 million and $0.6 million, respectively, that is recorded within cost of revenues. Acquisition-related intangible assets result from acquisitions accounted for under the purchase method of accounting and include customer-related intangibles, developed technology, trade names and other identifiable intangible assets. These assets are amortized using the straight-line method over periods ranging from two to twelve years. The increase in amortization expense of $1.3 million and $2.8 million for the three-month and six-month periods ended June 30, 2005, respectively, as compared to the same periods in 2004 reflects acquisitions that occurred during 2004 as discussed below. Excluding the impact of the proposed Pinnacle acquisition, we would expect amortization of acquisition-related intangibles to continue through the remainder of 2005 at approximately the same level as in the six months ended June 30, 2005.

In January 2004, we acquired NXN Software GmbH, a provider of asset and production management systems for the entertainment and computer graphics industries, for cash consideration of euro 35 million ($43.7 million), less cash acquired. As part of the purchase accounting allocation, we recorded $7.2 million of identifiable intangible assets, consisting of completed technologies, customer relationships and a trade name, of which $1.2 million were written off in December 2004 due to an impairment of the customer relationships and tradename.

In August 2004, we acquired M-Audio, a provider of digital audio and MIDI (Musical Instrument Digital Interface) solutions for musicians and audio professionals, for cash, net of cash acquired, of $79.6 million and stock and stock options with a fair value of $96.5 million. As part of the purchase accounting allocation, we recorded $38.4 million of identifiable intangible assets, consisting of completed technologies, customer relationships, a trade name and a non-compete covenant. In September 2004, we acquired Avid Nordic AB, an exclusive reseller of our products, for cash, net of cash acquired, of euro 6.1 million ($7.4 million). As part of the purchase accounting allocation, we recorded $4.7 million of identifiable intangible assets consisting solely of customer relationships.

Other Income (Expense), Net

	Three Months Ended June 30, (dollars in thousands)		
	2005	2004	Change
Other Income and Expense, Net:	$1,179	$595	$584
Percentage of Net Revenues:	0.7%	0.4%	0.3%

	Six Months Ended June 30, (dollars in thousands)		
	2005	2004	Change
Other Income and Expense, Net:	$2,016	$35	$1,981
Percentage of Net Revenues:	0.6%	(0.0%)	0.6%

Other income (expense), net, generally consists of interest income, interest expense and equity in income of a non-consolidated company. The increase in other income and expense, net for the three-month period ended June 30, 2005 was primarily due to increased interest income earned in the second quarter of 2005 on higher average cash and marketable securities balances.

The increase in other income and expense, net for the six-month period ended June 30, 2005 was primarily due to a charge in 2004 of $1.1 million related to the settlement of a lawsuit, as well as increased interest income earned in the first half of 2005 due to higher average interest rates.

Provision for Income Taxes, Net

	Three Months Ended June 30			
	2005	2004	Change	% Change
Provision for income taxes, net	$685	$700	($15)	-2.1%
As a percentage of net revenues	0.4%	0.5%	-0.1%	-20.0%

	Six Months Ended June 30			
	2005	2004	Change	% Change
Provision for income taxes, net	$2,114	$200	$1,914	957%
As a percentage of net revenues	0.6%	0.0%	0.6%	766%

Our effective tax rate was 4.8% and 4.3% for the three month periods ended June 30, 2005 and 2004, respectively. The effective tax rate for the six month periods ended June 30, 2005 and 2004, respectively, was 6.0% and 0.7%. The net tax provision for the six month period ended June 30, 2005 reflected a tax provision of $2.5 million, partially offset by $0.3 million of a tax benefit related to the amortization of non-deductible acquisition-related intangible assets. The net tax provision for the six month period ended June 30, 2004 reflected a tax provision of $1.4 million, partially offset by the reversal of a $1.2 million tax reserve resulting from the expiration of the statute of limitation on that reserve item. The tax provisions for the six month periods ended June 30, 2005 and 2004 were substantially comprised of taxes payable by our foreign subsidiaries with only alternative minimum tax provided on anticipated U.S taxable profits.

The tax rate in each year is significantly affected by net changes in the valuation allowance against our deferred tax assets. We regularly review our deferred tax assets for recoverability taking into consideration such factors as historical losses after deductions for stock compensation, projected future taxable income and the expected timing of the reversals of existing temporary differences. SFAS No. 109, "Accounting for Income Taxes," requires us to record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on the level of deferred tax assets as of June 30, 2005, the level of historical U.S. losses after deductions for stock compensation, and the level of outstanding stock options which we anticipate will generate significant U.S. tax deductions in the future, we have determined that the uncertainty regarding the realization of these assets is sufficient to warrant the continued establishment of a full valuation allowance against the U.S. net deferred tax assets. In the quarter ended December 31, 2004, we removed the valuation allowance related to deferred tax assets of our Irish manufacturing operations. The decision to remove the valuation allowance was based on the conclusion that it was more likely than not that the deferred tax asset in Ireland would be realized. Due to the removal of the valuation allowance, we now have a non-cash provision for income taxes related to our Irish operations.

Our assessment of the valuation allowance on the U.S. deferred tax assets could change in the future based upon our levels of pre-tax income and other tax related adjustments. Removal of the valuation allowance in whole or in part would result in a non-cash reduction in income tax expense during the period of removal. In addition, because a portion of the valuation allowance was established to reserve certain deferred tax assets resulting from the exercise of employee stock options, in accordance with SFAS No. 109, removal of the valuation allowance related to these assets would result in a credit to additional paid in capital. If the valuation allowance were to be removed in its entirety, a non-cash reduction in income tax expense and a credit to paid in capital would be recorded in the period of removal. To the extent no valuation allowance is established for our deferred tax assets in future periods, future financial statements would reflect an increase in income tax expense which would be on a non-cash basis until such time as our deferred tax assets are all used to reduce current taxes payable.

Excluding the impact of the valuation allowance, our effective tax rate would have been 32% for the three month periods ended June 30, 2005 and 2004. This rate differs from the Federal statutory rate of 35% primarily due to income in foreign jurisdictions which have lower tax rates.

LIQUIDITY AND CAPITAL RESOURCES

We have funded our operations to date through both private and public sales of equity securities, including stock option exercises from our employee stock plans, as well as through cash flows from operations. As of June 30, 2005, our principal sources of liquidity included cash, cash equivalents and marketable securities totaling $192.6 million.

With respect to cash flow, net cash provided by operating activities was $38.2 million for the six months ended June 30, 2005 compared to $36.1 million for the same period in 2004. During the six months ended June 30, 2005, net cash provided by operating activities primarily reflects net income adjusted for depreciation and amortization as well as an increase in deferred revenues, partially offset by an increase in inventories and a decrease in accrued expenses. During the six months ended June 30, 2004, net cash provided by operating activities primarily reflects net income adjusted for depreciation and amortization as well as an increase in deferred revenues and a decrease in inventories, partially offset by an increase in accounts receivable.

At June 30, 2005 and December 31, 2004, we held inventory in the amounts of $63.5 million and $53.9 million, respectively. These balances include stockroom, spares, and demonstration equipment inventories at various locations, and inventory at customer sites related to shipments for which we have not yet recognized revenue. The increase from December 31, 2004 was primarily attributable to in-transit inventory from Audio contract manufacturers, resulting from a switch to a lower-cost shipping method (specifically using more ocean freight as apposed to air freight), as well as a build-up of stockroom inventory in certain locations due to lower than anticipated revenues. We review all inventory balances regularly for excess quantities or potential obsolescence and make appropriate adjustments as needed to write-down the inventories to reflect their estimated realizable value.

Accounts receivable increased by $1.6 million to $99.1 million at June 30, 2005 from $97.5 million at December 31, 2004. These balances are net of allowances for sales returns, bad debts and customer rebates, all of which we estimate and record based on historical experience. Days sales outstanding in accounts receivable increased from 50 days at December 31, 2004 to 56 days at June 30, 2005. The increase in days sales outstanding was primarily attributable to the relative proportion of solution sales in each period, which were higher in the December quarter than the June quarter due to new product delays mentioned above. These sales are typically paid prior to recognition and therefore have a positive impact on days sales outstanding in the period when revenue is recognized.

Net cash flow used in investing activities was $1.4 million for the six months ended June 30, 2005 compared to $50.5 million for the same period in 2004. We purchased $8.2 million of property and equipment during the six months ended June 30, 2005 compared to $6.5 million in the same period of 2004. Purchases of property and equipment in both 2005 and 2004 were primarily of computer hardware and software to support research and development activities and our information systems. Our full year capital spending for 2005, excluding the impact of the pending Pinnacle acquisition, is currently expected to be approximately $16.0 million, including purchases of hardware and software to support activities in the research and development, information systems and manufacturing areas, as well as for facilities renovations. However, this amount could increase in the event that we enter into strategic business acquisitions or for other reasons. During the six months ended June 30, 2004, we expended cash of $42.9 million for the purchase of NXN Software GmbH. During this period, we also made a second payment of $1.0 million for our 2003 acquisition of Bomb Factory Digital, after resolution of acquisition-related contingencies. We expect the cash payment for the Pinnacle acquisition to be approximately $71.3 million upon closing, which is currently expected in the third quarter of 2005.

During the six months ended June 30, 2005 and 2004, we generated cash of $8.9 million and $11.8 million, respectively, from the issuance of common stock related to the exercise of stock options and our employee stock purchase plan.

In connection with restructuring efforts during 2001 and prior periods, as well as with the identification in 2003 and 2002 of excess space in various locations, as of June 30, 2005 we have future cash obligations of approximately $16.9 million under leases for which we have vacated the underlying facilities. We have an associated restructuring accrual of $2.8 million at June 30, 2005 representing the excess of our lease commitments on space no longer used by us over expected payments to be received on subleases of such facilities. This restructuring accrual requires significant estimates and assumptions, including sub-lease income assumptions. These estimates and assumptions are monitored on at least a quarterly basis for changes in circumstances and any corresponding adjustments to the accrual are recorded in the period when such changes are known. The lease payments will be made over the remaining terms of the leases, which have varying expiration dates through 2010, unless we are able to negotiate an earlier termination. All restructuring related payments will be funded through working capital.

Our cash requirements vary depending upon factors such as our planned growth, capital expenditures, the possible acquisition of businesses or technologies complementary to our business, and obligations under past restructuring programs. We believe that our existing cash, cash equivalents, marketable securities and funds generated from operations will be sufficient to meet our operating cash requirements for at least the next twelve months. In the event that we require additional financing, we believe that we will be able to obtain such financing; however, there can be no assurance that we would be successful in doing so, or that we could do so on favorable terms.

RECENT ACCOUNTING PRONOUNCEMENTS

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs", an amendment of Accounting Research Bulletin No. 43, which is the result of its efforts to converge U.S. accounting standards for inventories with International Accounting Standards. SFAS No. 151 requires idle facility expenses, freight, handling costs, and wasted material (spoilage) costs to be recognized as current-period charges. It also requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005 (i.e. beginning January 1, 2006). We are currently evaluating the impact of SFAS No. 151 on our consolidated financial statements. The adoption of this standard is not expected to have a material impact on our financial position or results of operations.

On December 16, 2004, the FASB released SFAS No. 123R. This new accounting standard requires all forms of stock compensation, including stock options issued to employees, to be reflected as an expense in our financial statements. On April 14, 2005, the Securities and Exchange Commission approved a new rule that delays the effective date of SFAS No. 123R. Under the new rule, SFAS No. 123R is now effective for public companies for annual, rather than interim, periods that begin after June 15, 2005. SFAS No. 123R allows three alternative methods of transitioning to the standard: modified prospective application ("MPA"); modified retrospective application ("MRA") to all prior periods; or MRA to only interim periods of the year of adoption. We intend to use the MPA without restatement alternative and to apply the revised standard beginning January 1, 2006. Under the modified prospective application, all unvested awards that were previously included as part of the pro forma net income disclosure and are outstanding on the effective date would be charged to expense over the remaining vesting period, without any changes in measurement. All new awards that are granted or modified after the effective date will be expensed using the FAS 123R measurement model. Although we have not finalized our analysis, we expect that the adoption of the revised standard will result in higher operating expenses and lower earnings per share. See Footnote 6, Accounting for Stock-Based Compensation, for the pro forma impact on net income and income per common share as if we had historically applied the fair value recognition provisions of SFAS No. 123 to stock based employee awards.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 ("the Act"). The Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends-received deduction for certain dividends from controlled foreign corporations. The Act also creates a deduction on a percentage of the lesser of qualified production activities income or taxable income. Although these deductions are subject to a number of limitations and significant uncertainty remains as to how to interpret numerous provisions in the Act, we believe that we have the information necessary to make an informed decision on the impact of the Act. Based on the information available, we have determined that our cash position in the U.S. is sufficient to fund anticipated needs. We also believe that the repatriation of income earned abroad would result in significant foreign withholding taxes that otherwise would not have been incurred as well as additional U.S. tax liabilities that may not be sufficiently offset by foreign tax credits. Therefore, we do not currently plan to repatriate any income earned abroad. We have also determined that the qualified production activities deduction will not have a material impact on the fiscal 2005 tax provision due to the expected amount of taxable income. These initial findings could change based on clarification of the rules and changes in facts and circumstances of our operations and/or cash requirements in the U.S.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

Some of the statements in this Form 10-Q relating to our future performance constitute forward-looking statements. Such forward-looking statements are based upon management's current expectations and involve known and unknown risks. Realization of any of these risks may cause actual results to differ materially from the results described in the forward-looking statements. Certain of these risks are as follows:

We may not be able to realize the expected benefits of our proposed merger with Pinnacle Systems, Inc.

As a result of our proposed merger with Pinnacle Systems, Inc., which we expect to close in the third quarter of 2005, we will face challenges in several areas of our business.

Existing or potential customers of Pinnacle and our existing and potential customers may, in response to the consummation of the merger, delay or defer their purchasing decisions. In addition, customers and prospective customers could choose not to purchase their respective products or to reduce or eliminate current products because of perceived or actual conflicts of interest or doubts about the combined company's ability to provide products in a satisfactory manner. As a result, revenues that may have ordinarily been received by us or Pinnacle may be delayed or not earned at all. In addition, current and prospective Pinnacle employees could experience uncertainty about their future roles within the combined company. This uncertainty may adversely affect our ability to attract and retain key personnel. Difficulties with respect to existing and potential customers or Pinnacle employees could have a material adverse effect on our business following the merger.

The successful integration of Pinnacle will require, among other things, integration of Pinnacle's operations, policies and personnel into our business. We may not achieve successful integration in a timely manner, or at all, and we may not realize the anticipated benefits and synergies of the merger to the extent, or in the timeframe, anticipated.

We will also face challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to develop appropriate systems, policies, benefits and compliance programs. The inability to manage the organization of the combined company effectively could have a material adverse effect on our business after the merger.

Finally, completion of the proposed merger requires various closing conditions to be satisfied. No assurance can be given that all required closing conditions will be satisfied, or that the Pinnacle merger will be completed.

Poor global economic conditions could adversely affect demand for our products and the financial condition of our suppliers, distributors and resellers.

The revenue growth and profitability of our business depends primarily on the overall demand for our products. If global economic conditions worsen, demand for our products may weaken, as could the financial health of our suppliers, distributors and resellers, which could adversely affect our revenues and business.

Our performance will depend in part on continued customer acceptance of our digital nonlinear editing products.

We continue to introduce new digital non-linear products based on our Digital Nonlinear Accelerator architecture, including upgrades and enhancements to our Media Composer Adrenaline and NewsCutter Adrenaline systems, as well as Avid Xpress Pro with Avid Mojo and Avid DS Nitris hardware. We will need to continue to focus marketing and sales efforts on educating potential customers and our resellers about the uses and benefits of these products. The future success of certain of these products, such as Avid DS Nitris, which enable high-definition production, will also depend on demand for high definition content and appliances, such as television sets and monitors, that utilize the high definition standard. In addition, there are several other risks involved with offering new products in general, including, without limitation, the possibility of defects or errors, failure to meet customer expectations, delays in shipping new products and the introduction of similar products by our competitors. The introduction and transition to new products could also have a negative impact on the market for our existing products, which could adversely affect our revenues and business.

The digital media business is large, widely dispersed, and highly competitive, and we may not be successful in growing our customer base or predicting customer demand in this business.

We are continuing to enhance our status in the digital broadcast business and have augmented our NewsCutter product offering with the Avid Unity for News products, and other server, newsroom, and browser products. In this business, in addition to or in lieu of discrete point products, customers will often seek complex solutions involving highly integrated components (including the configuration of unique workflows) from a single or multiple vendors. Success in this business will require, among other things, creating and implementing compelling solutions and developing a strong, loyal customer base.

In addition, large, complex broadcast orders often require us to devote significant sales, engineering, manufacturing, installation, and support resources to ensure their successful and timely fulfillment. As the broadcast business converts from analog to digital, our strategy has been to build our broadcast solutions team in response to customer demand. To the extent that customer demand for our broadcast solutions exceeds our expectations, we may encounter difficulties in the short term meeting our customers' needs. Meanwhile, our competitors may devote greater resources to the broadcast business than we do, or may be able to leverage their presence more effectively. If we are unsuccessful in expanding within the digital broadcast business or in predicting and satisfying customer demand, our business and revenues could be adversely affected.

A portion of our revenue is dependent on sales of large, complex solutions.

We expect sales of large, complex solutions to continue to constitute a material portion of our net revenue, particularly as news stations convert from analog, or tape-based, processes to digital formats. Our quarterly and annual revenues could fluctuate if:

- sales to one or more of our customers are delayed or are not completed within a given quarter;
- the contract terms preclude us from recognizing revenues relating to one or more significant contracts during a particular quarter;
- news stations' migrations to networked digital infrastructure slows down;
- we are unable to complete complex customer installations on schedule;
- our customers reduce their capital investments in our products in response to slowing economic growth; and
- any of our large customers terminates its relationship with us or significantly reduces the amount of business it does with us.

When we acquire other companies or businesses, we become subject to potential events or circumstances that could hurt our business.

We periodically acquire other companies or businesses. For example, in January 2004, we acquired NXN Software GmbH, a company that manufactures asset and production management systems specifically targeted for the entertainment and computer graphics industries, and in August 2004, we acquired Midiman, Inc. (d/b/a M-Audio), a leading provider of digital audio and MIDI solutions for musicians and audio professionals. The risks associated with such acquisitions include, among others:

- the difficulty of assimilating the operations, policies and personnel of the target companies;
- the failure to realize anticipated returns on investment, cost savings and synergies;
- the diversion of management's time and attention;
- the dilution existing stockholders experience if we issue common stock or other equity rights in the acquisition;
- the potential loss of key employees of the target company;
- the difficulty in complying with a variety of foreign laws and regulations;
- the impairment of relationships with customers or suppliers;
- the risks associated with contingent payments and earnouts;
- the possibility of incurring debt and amortization expenses related to goodwill and other intangible assets; and
- unidentified issues not discovered in due diligence, which may include product quality issues and legal contingencies.

Such acquisitions often involve significant transaction-related costs and could cause disruption to normal operations. In the future, we may also make debt or equity investments. If so, we may fail to realize anticipated returns on such investments. If we are unable to overcome or mitigate these risks, they could adversely affect our business and lower revenues.

We compete with many other enterprises, and we expect competition to intensify in the future.

The digital video and audio business are highly competitive, with limited barriers to entry, and are characterized by pressure to reduce prices, incorporate new features, and accelerate the release of new products. Some of our current and potential competitors have substantially greater financial, technical, distribution, support, and marketing resources than we do. Such competitors may use these resources to lower their product costs, allowing them to reduce prices to levels at which we could not operate profitably. Delays or difficulties in product development and introduction may also harm our business. In addition to price, our products must also compete favorably with our competitors' products in terms of reliability, performance, ease of use, range of features, product enhancements, reputation and training. If we are unable to compete for our target customers effectively, our business and results of operations could suffer.

New product announcements by our competitors and by us also could have the effect of reducing customer demand for our existing products. New product introductions require us to devote time and resources to training our sales channels in product features and target customers, with the temporary result that the sales channels may have less time to devote to selling our products. In addition, our introduction of new products and expansion of existing product offerings can put us into competition with companies with whom we formerly collaborated. To the extent such companies discontinue their alliances with Avid, it could have a negative impact on our business.

Our products are complex, and may contain errors or defects resulting from such complexity.

As we continue to enhance and expand our product offerings, our products have grown increasingly complex and, despite extensive testing and quality control, may contain errors or defects. Such errors or defects could cause us to issue corrective releases and could result in loss of revenues, delay of revenue recognition, increased product returns, lack of market acceptance and damage to our reputation.

We have a significant presence in the audio business, and therefore the growth of our audio business will depend in part on our ability to successfully introduce new products.

Our Digidesign division has a significant presence in the audio business, due in large part to a series of successful product introductions. Our future success will depend in part upon our ability to offer, on a timely and cost-effective basis, new audio products and enhancements of our existing audio products. This can be a complex and uncertain process, and we could experience design, manufacturing, marketing, or other difficulties that delay or prevent the introduction of new or enhanced products, or the integration of acquired products, which, in turn, could harm our business.

Historically, a significant portion of our audio revenues has been derived from sales to professional musicians and studios. M-Audio is currently expanding its sales channel to include sales through the broader consumer channel. Members of M-Audio's senior staff have experience in this channel, but our overall experience addressing the consumer channel is limited, and the process of developing a channel for non-specialty stores and establishing our products in these stores will be difficult. While we are not anticipating that a material portion of our revenues will come through the consumer audio channel in the near term, there are costs related to pursuing the consumer channel that are, to a large extent, fixed. As a result, we may be unable to adjust our spending in a timely manner to compensate for any unexpected revenue shortfall, which would harm our operating results. Also, to the extent we increase sales of our audio products through the consumer channel, we expect to experience greater seasonality in sales of such products. Typically, sales of consumer electronics and software increase in the second half of the year, reaching their peak during the year-end holiday season.

Our use of independent firms and contractors to perform some of our product development and manufacturing activities could expose us to risks that could adversely impact our revenues.

Independent firms and contractors, some of whom are located in other countries, perform some of our product development and manufacturing activities. We generally own the software developed by these contractors. The use of independent firms and contractors, especially those located abroad, could expose us to risks related to governmental regulation, foreign taxation, intellectual property ownership and rights, exchange rate fluctuation, political instability and unrest, natural disasters, and other risks, which could adversely impact our revenues.

An interruption of our supply of certain products or key components from our sole source suppliers, or a price increase in such products or components, could hurt our business.

We are dependent on a number of specific suppliers for certain products and key components of our products. We purchase these sole source products and components pursuant to purchase orders placed from time to time. We generally do not carry significant inventories of these sole source products and components and have no guaranteed supply arrangements. If any of our sole source vendors should fail to produce such products or to supply or enhance such components, such failure could imperil our supply and our ability to continue selling and servicing products that use these components. Similarly, if any of our sole source vendors should encounter technical, operating or financial difficulties, such difficulties could threaten our supply of these products or components. While we believe that alternative sources for these products and components could be developed, or our products could be redesigned to permit the use of alternative components, an interruption of our supply could damage our business and negatively affect our operating results.

Our gross profit margin varies from product to product depending primarily on the proportion and cost of third-party hardware included in each product. From time to time, we add functionality and features to our products. If we effect such additions through the use of more, or more costly, third-party hardware, and are not able to increase the price of such products to offset these increased costs, our gross profit margin on these products could decrease and our operating results could be adversely affected.

We rely on third party software for some of our products and if we are unable to use or integrate such software, our product and service development may be delayed.

We rely on certain software that we license from third parties, including software that is bundled with our products and sold to end users and software that is integrated with internally developed software and used in our products to perform key functions. These third-party software licenses may not continue to be available on commercially reasonable terms, and the software may not be appropriately supported, maintained or enhanced by the licensors. The loss of licenses to, or inability to support, maintain and enhance any such software, could result in increased costs, or in delays or reductions in product shipments until equivalent software could be developed, identified, licensed and integrated, which would likely harm our business.

Qualifying and supporting our products on multiple computer platforms is time consuming and expensive.

Our software engineers devote significant time and effort to qualify and support our products on various computer platforms, including Microsoft and Apple platforms. Computer platform modifications and upgrades require additional time to be spent to ensure that our products function properly. To the extent that the current configuration of qualified and supported platforms changes or we need to qualify and support new platforms, we could be required to expend valuable engineering resources, which could adversely affect our operating results.

Our operating results are dependent on several unpredictable factors.

The revenue and gross profit from our products depend on many factors, including:

o mix of products sold;
o cost and proportion of third-party hardware and software included in such products;
o product distribution channels;
o acceptance of our new product introductions;
o product offers and platform upgrades;
o price discounts and sales promotion programs;
o volume of sales of aftermarket hardware products;
o costs of swapping or fixing products released to the market with defects;
o provisions for inventory obsolescence;
o competitive pressure on product prices;
o costs incurred in connection with "solution" sales, which typically have longer selling and implementation cycles; and
o timing of delivery of solutions to customers.

Changes in any of these factors could adversely affect our operating results.

Our international operations expose us to significant exchange fluctuations and regulatory, intellectual property and other risks which could harm our operating results.

We generally derive approximately half of our revenues from customers outside of the United States. This business is, for the most part, transacted through international subsidiaries and generally in the currency of the end-user customers. Therefore, we are exposed to the risks that changes in foreign currency could adversely impact our revenues, net income (loss) and cash flow. To hedge against the foreign exchange exposure of certain forecasted receivables, payables and cash balances of our foreign subsidiaries, we enter into foreign currency forward-exchange contracts. The success of our hedging program depends on forecasts of transaction activity in the various currencies. To the extent that these forecasts are over- or understated during periods of currency volatility, we could experience currency gains or losses.

Other risks inherent in our international operations include changes in regulatory practices, environmental laws, tax laws, trade restrictions and tariffs, longer collection cycles for accounts receivable, and greater difficulty in protecting intellectual property.

New environmental regulations could negatively impact our future operating results.

The European Union has finalized the Waste Electrical and Electronic Equipment ("WEEE") Directive, which makes producers, importers, and/or distributors of specified electronic products, including certain Avid products, responsible for the collection, recycling, treatment, and disposal of covered products. The WEEE Directive is expected to become effective in August 2005, although to date not all EU countries have adopted rules implementing the Directive. The European Union has also passed the Restriction of Hazardous Substances Directive, or the RoHS Directive, which places restrictions on lead and certain other substances contained in specified electronic products, including certain Avid products, sold in the European Union after June 2006. While the cost of compliance with these Directives cannot be determined before the member states issue their final implementation guidance, the potential costs could be significant and could adversely affect our future operating results.

Our operating costs are tied to projections of future revenues, which may differ from actual results.

Our operating expense levels are based, in part, on our expectations of future revenues. Such future revenues are difficult to predict. A significant portion of our business occurs near the end of each quarter, which can impact our ability to forecast revenues on a quarterly basis with precision. Further, we are generally unable to reduce quarterly operating expense levels rapidly in the event that quarterly revenue levels fail to meet internal expectations. Therefore, if quarterly revenue levels fail to meet internal expectations upon which expense levels are based, our results of operations could be adversely affected.

Terrorism, acts of war, and other catastrophic events may seriously harm our business.

Terrorism, acts of war, or other catastrophic events may disrupt our business and harm our employees, facilities, suppliers, distributors, resellers or customers, which could significantly impact our revenue and operating results. The increasing presence of these threats has created many economic and political uncertainties that could adversely affect our business and stock price in ways that cannot be predicted. We are predominantly uninsured for losses and interruptions caused by terrorism, acts of war, and other catastrophic events.

If we fail to maintain strong relationships with our resellers, distributors, and suppliers, our ability to successfully deploy our products may be harmed.

We sell many of our video products and services, and substantially all of our audio products and services, indirectly through resellers and distributors. In our audio segment, a few distributors account for a significant portion of the revenue in that segment. The loss of one or more key distributors could reduce our revenues. The resellers and distributors of our video segment products typically purchase Avid software and Avid-specific hardware from us, and third-party components from various other vendors, in order to produce complete systems for resale. Any disruption to our resellers and distributors, or their third-party suppliers, could reduce our revenues. Increasingly, we are distributing our products directly, which could put us in competition with our resellers and distributors and could adversely affect our revenues. In addition, our resellers could diversify the manufacturers from whom they purchase products to sell to final end-users, which could lead to a weakening of our relationships with our resellers and could adversely affect our revenues.

Most of the resellers and distributors of our video products are not granted rights to return products after purchase, and actual product returns from such resellers and distributors have been insignificant to date. Our revenue from sales of audio products is generally derived, however, from transactions with distributors and authorized resellers that typically allow limited rights of return, inventory stock rotation and price protection. Accordingly, reserves for estimated returns, exchanges and credits for price protection are recorded as a reduction of revenues upon shipment of the related products to such distributors and resellers, based upon our historical experience. To date, actual returns have not differed materially from management's estimates. However, if returns of our audio segment products were to exceed estimated levels, our revenues and operating results could be adversely impacted.

Changes in accounting rules could adversely affect our future operating results.

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles. These principles are subject to interpretation by various governing bodies, including the Financial Accounting Standards Board and the Securities and Exchange Commission, which promulgate and interpret appropriate accounting regulations. Changes from current accounting regulations, including changes in the rules regarding accounting for stock-based compensation, may have a significant effect on our reported financial results.

Our future growth could be harmed if we lose the services of certain employees.

Our success depends upon the services of a talented and dedicated workforce, including members of our executive team and employees in technical positions. The loss of the services of one or more key employees could harm our business. Our success also depends upon our ability to attract and retain highly skilled new employees. Competition for such employees is intense in the industries and geographic areas in which we operate. In the past, we have relied on our ability to grant stock options as one mechanism for recruiting and retaining highly skilled talent. Changes in the accounting rules that will require us to expense stock options will impair our ability to provide these incentives without incurring compensation costs. If we are unable to compete successfully for talented employees, our business could suffer.

If we fail to manage our growth effectively, our business could be harmed.

Our success depends on our ability to manage the growth of our operations effectively. As a result of our acquisitions and increasing demand for our products and services, the scope of our operations has grown both domestically and internationally. Our management team will face challenges inherent in efficiently managing an increased number of employees over larger geographic distances. These challenges include implementing effective operational systems, procedures and controls, as well as training new personnel. Inability to successfully respond to these challenges could have a material adverse effect on the growth of our business.

Our websites could subject us to legal claims that could harm our business.

Some of our websites provide interactive information and services to our customers. To the extent that materials may be posted on or downloaded from these websites and distributed to others, we may be subject to claims for defamation, negligence, copyright or trademark infringement, personal injury, or other theories of liability based on the nature, content, publication or distribution of such materials. In addition, although we have attempted to limit our exposure by contract, we may also be subject to claims for indemnification by end users in the event that the security of our websites is compromised. As these websites are available on a worldwide basis, they could potentially be subject to a wide variety of international laws.

We could incur substantial costs protecting our intellectual property or defending against a claim of infringement.

Our ability to compete successfully and achieve future revenue growth depends, in part, on our ability to protect our proprietary technology and operate without infringing upon the intellectual property rights of others. We rely upon a combination of patent, copyright, trademark and trade secret laws, confidentiality procedures, and contractual provisions, as well as required hardware components and security keys, to protect our proprietary technology.

However, our means of protecting our proprietary rights may not be adequate. In addition, the laws of certain countries do not protect our proprietary technology to the same extent as do the laws of the United States. From time to time unauthorized parties have obtained, copied, and used information that we consider proprietary. Policing the unauthorized use of our proprietary technology is costly and time-consuming and we are unable to measure the extent to which piracy of our software exists. We expect software piracy to be a persistent problem.

We occasionally receive communications suggesting that our products may infringe the intellectual property rights of others. It is our practice to investigate the factual basis of such communications and negotiate licenses where appropriate. While it may be necessary or desirable in the future to obtain licenses relating to one or more products or relating to current or future technologies, we may be unable to do so on commercially reasonable terms. If we are unable to protect our proprietary technology or unable to negotiate licenses for the use of others' intellectual property, our business could be impaired.

We also may be liable to some of our customers for damages that they incur in connection with intellectual property claims. Although we attempt to limit our exposure to liability arising from infringement of third-party intellectual property rights in our agreements with customers, we may not always be successful. If we are required to pay damages to our customers, or indemnify our customers for damages they incur, our business could be harmed. Moreover, even if a particular claim falls outside of our indemnity or warranty obligations to our customers, our customers may be entitled to additional contractual remedies against us.

Our association with industry organizations could subject us to litigation.

We are members of several industry organizations, trade associations and standards consortia. Membership in these and similar groups could subject us to litigation as a result of the activities of such groups. For example, in connection with our anti-piracy program, designed to enforce copyright protection of our software, we are a member of the Business Software Alliance ("BSA"). From time to time the BSA undertakes litigation against suspected copyright infringers. These lawsuits could lead to counterclaims alleging improper use of litigation or violation of other local law. To date, none of these lawsuits or counterclaims have had an adverse effect on our results of operations, but should we become involved in material litigation, our cash flows or financial position could be adversely effected.

Compliance with rules and regulations concerning corporate governance has caused our operating expenses to increase and has put additional demands on our management.

The Sarbanes-Oxley Act of 2002 and the rules and regulations of the Securities and Exchange Commission and the NASDAQ stock market increased the scope, complexity and cost of our corporate governance, reporting and disclosure practices. These laws, rules and regulations also may divert management's attention from business operations, increase the cost of obtaining director and officer liability insurance and make it more difficult for us to attract and retain qualified executive officers, key personnel and members of our board of directors.

If we experience problems with our third-party leasing program, our revenues could be adversely impacted.

We have an established leasing program with a third party that allows certain of our customers to finance their purchases of our products. If this program ended abruptly or unexpectedly, some of our customers might be unable to purchase our products unless or until they were able to arrange for alternative financing, which could adversely impact our revenues.

Our stock price may continue to be volatile.

The market price of our common stock has experienced volatility in the past and could continue to fluctuate substantially in the future based upon a number of factors, most of which are beyond our control. These factors include:

o changes in our quarterly operating results;
o shortfalls in our revenues or earnings compared to securities analysts' expectations;
o changes in analysts' recommendations or projections;
o fluctuations in investors' perceptions of us or our competitors;
o shifts in the markets for our products;
o development and marketing of products by our competitors;

- changes in our relationships with suppliers, distributors, resellers, system integrators or customers;
- announcement of major acquisitions;
- a shift in financial markets; and
- global macroeconomic conditions.

Further, the stock market has experienced volatility with respect to the price of equity securities of high technology companies generally, and this volatility has, at times, appeared to be unrelated to or disproportionate to any of the factors above.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Market Risk

Our primary exposures to market risk are financial, including the effect of volatility in currencies on asset and liability positions and revenue and operating expenses of our international subsidiaries that are denominated in foreign currencies, and the effect of fluctuations in interest rates earned on our cash equivalents and marketable securities.

Foreign Currency Exchange Risk

We generally derive more than half of our revenues from customers outside the United States. This business is, for the most part, transacted through international subsidiaries and generally in the currency of the end-user customers. Therefore, we are exposed to the risks that changes in foreign currency could adversely impact our revenues, net income (loss) and cash flow. To hedge against the foreign exchange exposure of certain forecasted receivables, payables and cash balances of our foreign subsidiaries, we enter into short-term foreign currency forward-exchange contracts. There are two objectives of our foreign currency forward-exchange contract program: (1) to offset any foreign exchange currency risk associated with cash receipts expected to be received from our customers over the next 30 day period and (2) to offset the impact of foreign currency exchange on our net monetary assets denominated in currencies other than the U.S. dollar. These forward-exchange contracts typically mature within 30 days of purchase. We record gains and losses associated with currency rate changes on these contracts in results of operations, offsetting gains and losses on the related assets and liabilities. The success of this hedging program depends on forecasts of transaction activity in the various currencies, and contract rates versus financial statement rates. To the extent that these forecasts are over- or understated during the periods of currency volatility, we could experience unanticipated currency gains or losses.

At June 30, 2005, we had $23.5 million of forward-exchange contracts outstanding, denominated in the euro, British pound, Japanese yen, Swedish krona, Danish kroner, Norwegian krone, Canadian dollar, Singapore dollar, Australian dollar and Korean won, as a hedge against forecasted foreign currency-denominated receivables, payables and cash balances. For the three month period ended June 30, 2005, net gains resulting from forward-exchange contracts of $2.6 million were included in results of operations, offset by net transaction and re-measurement losses on the related asset and liabilities of $2.7 million. A hypothetical 10% change in foreign currency rates would not have a material impact on our results of operations, assuming the above-mentioned forecast of foreign currency exposure is accurate, because the impact on the forward contracts as a result of a 10% change would at least partially offset the impact on the asset and liability positions of our foreign subsidiaries.

Interest Rate Risk

At June 30, 2005, we held $192.6 million in cash, cash equivalents and marketable securities, including short-term corporate obligations, municipal obligations, asset-backed securities, commercial paper and U.S. and Canadian government and government agency obligations. Marketable securities are classified as "available for sale" and are recorded on the balance sheet at market value, with any unrealized gain or loss recorded in other comprehensive income (loss). A hypothetical 10% increase or decrease in interest rates would not have a material impact on the fair market value of these instruments due to their short maturity.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2005. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2005, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

No change in our internal control over financial reporting occurred during the fiscal quarter ended June 30, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In April 2005, we were notified by the Korean Federal Trade Commission ("KFTC") that a former reseller, Neat Information Telecommunication, Inc. ("Neat"), had filed a complaint against us alleging unfair trade practices. Neat, one of several resellers of our products in South Korea, was terminated by us in September 2003. The KFTC is currently interviewing both parties and will determine whether to proceed with a formal investigation. We believe that the complaint is without merit and will defend ourselves vigorously in the event that the KFTC determines to proceed with a formal investigation. Our business in South Korea represented less than 1% of our total revenues for 2004. Because we cannot predict the outcome of this matter at this time, no costs have been accrued for this possible loss contingency.

ITEM 6. EXHIBITS

(a) EXHIBITS

*10.1 Avid Technology, Inc. 2005 Stock Incentive Plan

*10.2 Consulting Agreement between Avid Technology, Inc. and Jay Anderson, dated July 25, 2005.

*31.1 Certification of Principal Executive Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

*31.2 Certification of Principal Financial Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

*32.1 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- ---------------------

*documents filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Avid Technology, Inc.

Date: August 8, 2005

By: /s/ Paul J. Milbury

Paul J. Milbury
Chief Financial Officer
(Principal Financial Officer)

Date: August 8, 2005

By: /s/ Carol L. Reid

Carol L. Reid
Vice President and Corporate Controller
(Principal Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
*10.1	Avid Technology, Inc. 2005 Stock Incentive Plan
*10.2	Consulting Agreement between Avid Technology, Inc. and Jay Anderson, dated July 25, 2005.
*31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

----

*documents filed herewith

Avid Technology, Inc.

2005 Stock Incentive Plan

1. Purpose

The purpose of this 2005 Stock Incentive Plan (the "Plan") of Avid Technology, Inc., a Delaware corporation (the "Company"), is to advance the interests of the Company's stockholders by enhancing the Company's ability to attract, retain and motivate persons who are expected to make important contributions to the Company and by providing such persons with equity ownership opportunities and performance-based incentives that are intended to align their interests with those of the Company's stockholders. Except where the context otherwise requires, the term "Company" shall include any of the Company's present or future parent or subsidiary corporations as defined in Sections 424(e) or (f) of the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder (the "Code") and any other business venture (including, without limitation, joint venture or limited liability company) in which the Company has a controlling interest, as determined by the Board of Directors of the Company (the "Board").

2. Eligibility

All of the Company's employees, officers, directors, consultants and advisors are eligible to receive options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards (each, an "Award") under the Plan. Each person who receives an Award under the Plan is deemed a "Participant".

3. Administration and Delegation

(a) Administration by Board of Directors. The Plan will be administered by the Board. The Board shall have authority to grant Awards and to adopt, amend and repeal such administrative rules, guidelines and practices relating to the Plan as it shall deem advisable. The Board may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem expedient to carry the Plan into effect and it shall be the sole and final judge of such expediency. All decisions by the Board shall be made in the Board's sole discretion and shall be final and binding on all persons having or claiming any interest in the Plan or in any Award. No director or person acting pursuant to the authority delegated by the Board shall be liable for any action or determination relating to or under the Plan made in good faith.

(b) Appointment of Committees. To the extent permitted by applicable law, the Board may delegate any or all of its powers under the Plan to one or more committees or subcommittees of the Board (a "Committee"). All references in the Plan to the "Board" shall mean the Board or a Committee of the Board or the officers referred to in Section 3(c) to the extent that the Board's powers or authority under the Plan have been delegated to such Committee or officers.

(c) Delegation to Officers. To the extent permitted by applicable law, the Board may delegate to one or more officers of the Company the power to grant Awards to employees or officers of the Company or any of its present or future subsidiary corporations and to exercise such other powers under the Plan as the Board may determine, provided that the Board shall fix the terms of the Awards to be granted by such officers (including the exercise price of such Awards, which may include a formula by which the exercise price will be determined) and the maximum number of shares subject to Awards that the officers may grant; provided further, however, that no officer shall be authorized to grant Awards

to any "executive officer" of the Company (as defined by Rule 3b-7 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) or to any "officer" of the Company (as defined by Rule 16a-1 under the Exchange Act).

4. Stock Available for Awards.

(a) Number of Shares. Subject to adjustment under Section 10, Awards may be made under the Plan for up to 3,000,000 shares of common stock, $.01 par value per share, of the Company (the "Common Stock"). If any Award expires or is terminated, surrendered or canceled without having been fully exercised or is forfeited in whole or in part (including as the result of shares of Common Stock subject to such Award being repurchased by the Company at the original issuance price pursuant to a contractual repurchase right) or results in any Common Stock not being issued (including as the result of a SAR being settled in Common Stock), the unused Common Stock covered by such Award shall again be available for the grant of Awards under the Plan. However, in the case of Incentive Stock Options (as hereinafter defined), the foregoing provisions shall be subject to any limitations under the Code. Shares issued under the Plan may consist in whole or in part of authorized but unissued shares or treasury shares.

(b) Section 162(m) Per-Participant Limit. Subject to adjustment under Section 10, the maximum number of shares of Common Stock with respect to which Awards may be granted to any Participant under the Plan shall be 500,000 per calendar year. For purposes of the foregoing limit, the combination of an Option in tandem with a SAR (as each is hereafter defined) shall be treated as a single Award. The per-Participant limit described in this Section 4(b) shall be construed and applied consistently with Section 162(m) of the Code or any successor provision thereto, and the regulations thereunder ("Section 162(m)").

5. Stock Options

(a) General. The Board may grant options to purchase Common Stock (each, an "Option") and determine the number of shares of Common Stock to be covered by each Option, the exercise price of each Option and the conditions and limitations applicable to the exercise of each Option, including conditions relating to applicable federal or state securities laws, as it considers necessary or advisable. An Option which is not intended to be an Incentive Stock Option (as hereinafter defined) shall be designated a "Nonstatutory Stock Option".

(b) Incentive Stock Options. An Option that the Board intends to be an "incentive stock option" as defined in Section 422 of the Code (an "Incentive Stock Option") shall only be granted to employees of Avid Technology, Inc., any of Avid Technology, Inc.'s present or future parent or subsidiary corporations as defined in Sections 424(e) or (f) of the Code, and any other entities the employees of which are eligible to receive Incentive Stock Options under the Code, and shall be subject to and shall be construed consistently with the requirements of Section 422 of the Code. The Company shall have no liability to a Participant, or any other party, if an Option (or any part thereof) that is intended to be an Incentive Stock Option is not an Incentive Stock Option or for any action taken by the Board pursuant to Section 11(f), including without limitation the conversion of an Incentive Stock Option to a Nonstatutory Stock Option.

(c) Exercise Price. The Board shall establish the exercise price of each Option and specify such exercise price in the applicable option agreement; provided, however, that the exercise price shall not be less than 100% of the Fair Market Value (as defined below in subsection (h)(3)) at the time the Option is granted.

(d) Limitation on Repricing. Unless such action is approved by the Company's stockholders: (1) no outstanding Option granted under the Plan may be amended to provide an exercise price per share that is lower than the then-current exercise price per share of such outstanding Option (other than adjustments pursuant to Section 10) and (2) the Board may not cancel any outstanding Option and grant in substitution therefore new Awards under the Plan covering the same or a different number of shares of Common Stock and having an exercise price per share lower than the then-current exercise price per share of the cancelled Option.

(e) No Reload Rights. No Option granted under the Plan shall contain any provision entitling the optionee to the automatic grant of additional Options in connection with any exercise of the original Option.

(f) Duration of Options. Each Option shall be exercisable at such times and subject to such terms and conditions as the Board may specify in the applicable option agreement; provided, however, that no Option will be granted for a term in excess of 10 years.

(g) Exercise of Option. Options may be exercised by delivery to the Company of a written notice of exercise signed by the proper person or by any other form of notice (including electronic notice) approved by the Board together with payment in full as specified in Section 5(h) for the number of shares for which the Option is exercised. Shares of Common Stock subject to the Option will be delivered by the Company following exercise either as soon as practicable.

(h) Payment Upon Exercise. Common Stock purchased upon the exercise of an Option granted under the Plan shall be paid for as follows:

(1) in cash or by check, payable to the order of the Company;

(2) except as the Board may otherwise provide in an option agreement, by (i) delivery of an irrevocable and unconditional undertaking by a creditworthy broker to deliver promptly to the Company sufficient funds to pay the exercise price and any required tax withholding or (ii) delivery by the Participant to the Company of a copy of irrevocable and unconditional instructions to a creditworthy broker to deliver promptly to the Company cash or a check sufficient to pay the exercise price and any required tax withholding;

(3) when the Common Stock is registered under the Securities Exchange Act of 1934 (the "Exchange Act"), by delivery of shares of Common Stock owned by the Participant valued at their fair market value as determined by (or in a manner approved by) the Board ("Fair Market Value"), provided (i) such method of payment is then permitted under applicable law, (ii) such Common Stock, if acquired directly from the Company, was owned by the Participant for such minimum period of time, if any, as may be established by the Board in its discretion and (iii) such Common Stock is not subject to any repurchase, forfeiture, unfulfilled vesting or other similar requirements;

(4) to the extent permitted by applicable law and by the Board, by payment of such other lawful consideration as the Board may determine; or

(5) by any combination of the above permitted forms of payment.

(i) Substitute Options. In connection with a merger or consolidation of an entity with the Company or the acquisition by the Company of property or stock of an entity, the Board may grant Options in substitution for any options or other stock or stock-based awards granted by such entity or an affiliate thereof. Substitute Options may be granted on such terms as the Board deems appropriate in the circumstances, notwithstanding any limitations on Options contained in the other sections of this Section 5 or in Section 2.

6. Director Awards

(a) Initial Grant. Upon the commencement of service on the Board by any individual who is not then an employee of the Company or any subsidiary of the Company, the Company shall grant to such person (1) a Nonstatutory Stock Option to purchase up to 15,000 shares of Common Stock (subject to adjustment under Section 10), (2) a Restricted Stock Award (as defined in Section 8(a) below) that entitles such member to receive up to 7,500 shares of Common Stock (subject to adjustment under Section 10) or (3) a combination of a Nonstatutory Stock Option and a Restricted Stock Award, provided that the sum of (i) the number of shares of Common Stock that such member is entitled to purchase pursuant to the Nonstatutory Stock Option plus (ii) two multiplied by the number of shares of Common Stock that such member is entitled to receive pursuant to the Restricted Stock Award does not exceed 15,000 (subject to adjustment under Section 10).

(b) Annual Grant. On the date of each annual meeting of stockholders of the Company, the Company shall grant to each member of the Board of Directors of the Company who (1) has served as a director of the Company for at least six months prior to such annual meeting, (2) is serving as a director of the Company immediately following such annual meeting and (3) is not then an employee of the Company or any of its subsidiaries, (i) a Nonstatutory Stock Option to purchase up to 15,000 shares of Common Stock (subject to adjustment under Section 10), (ii) a Restricted Stock Award that entitles such member to receive up to 7,500 shares of Common Stock (subject to adjustment under Section 10) or (iii) a combination of a Nonstatutory Stock Option and a Restricted Stock Award, provided that the sum of (A) the number of shares of Common Stock that such member is entitled to purchase pursuant to the Nonstatutory Stock Option plus (B) two multiplied by the number of shares of Common Stock that such member is entitled to receive pursuant to the Restricted Stock Award does not exceed 15,000 (subject to adjustment under Section 10).

(c) Terms of Director Options. Options granted under this Section 6 shall (1) have an exercise price equal to the closing sale price (for the primary trading session) of the Common Stock on The Nasdaq Stock Market or the national securities exchange on which the Common Stock is then traded on the date of grant (and if the Common Stock is not then traded on The Nasdaq Stock Market or a national securities exchange, the fair market value of the Common Stock on such date as determined by the Board), (2) vest in full on the First Anniversary (as defined below in Section 6(f)) of the date of grant provided that the individual is serving on the Board on such date, provided that no additional vesting shall take place after the Participant ceases to serve as a director and further provided that the Board may provide for accelerated vesting in the case of death, disability, attainment of mandatory retirement age or retirement following at least 10 years of service, (3) expire on the earlier of 10 years from the date of grant or three months following cessation of service on the Board and (4) contain such other terms and conditions as the Board shall determine.

(d) Restricted Stock Vesting. Restricted Stock Awards granted pursuant to this Section 6 shall be zero percent vested prior to the First Anniversary of the date of grant, no more than 33-1/3% vested prior to the Second Anniversary (as defined below in Section 6(f)) of the date of grant, and no more than 66-2/3% vested prior to the Third Anniversary (as defined below in Section 6(f)) of the date of grant.

(e) Limitations on Awards to Non-Employee Directors. Directors who are not employees of the Company may only be granted Awards under the Plan pursuant to, and subject to the limitations set forth in, this Section 6 of the Plan.

(f) Annual Meetings. For Awards granted on the date of an annual meeting of stockholders of the Company pursuant to this Section 6: the term "First Anniversary" shall mean the earlier of (1) the first anniversary of the date of grant or (2) the business day prior to the date of the next annual meeting of stockholders of the Company to be held after the date of grant; the term "Second Anniversary" shall mean the earlier of (1) the second anniversary of the date of grant or (2) the business day prior to the date of the second annual meeting of stockholders of the Company to be held after the date of grant; and the term "Third Anniversary" shall mean the earlier of (1) the third anniversary of the date of grant or (2) the business day prior to the date of the third annual meeting of stockholders of the Company to be held after the date of grant.

7. Stock Appreciation Rights

(a) General. A Stock Appreciation Right, or SAR, is an Award entitling the holder, upon exercise, to receive an amount in Common Stock determined in whole or in part by reference to appreciation, from and after the date of grant, in the fair market value of a share of Common Stock. SARs may be based solely on appreciation in the fair market value of Common Stock or on a comparison of such appreciation with some other measure of market growth such as (but not limited to) appreciation in a recognized market index. The date as of which such appreciation or other measure is determined shall be the exercise date unless another date is specified by the Board in the SAR Award.

(b) Grants. Stock Appreciation Rights may be granted in tandem with, or independently of, Options granted under the Plan.

(1) Tandem Awards. When Stock Appreciation Rights are expressly granted in tandem with Options, (i) the Stock Appreciation Right will be exercisable only at such time or times, and to the extent, that the related Option is exercisable (except to the extent designated by the Board in connection with a Reorganization Event) and will be exercisable in accordance with the procedure required for exercise of the related Option; (ii) the Stock Appreciation Right will terminate and no longer be exercisable upon the termination or exercise of the related Option, except to the extent designated by the Board in connection with a Reorganization Event and except that a Stock Appreciation Right granted with respect to less than the full number of shares covered by an Option will not be reduced until the number of shares as to which the related Option has been exercised or has terminated exceeds the number of shares not covered by the Stock Appreciation Right; (iii) the Option will terminate and no longer be exercisable upon the exercise of the related Stock Appreciation Right; and (iv) the Stock Appreciation Right will be transferable only with the related Option.

(2) Independent SARs. A Stock Appreciation Right not expressly granted in tandem with an Option will become exercisable at such time or times, and on such conditions, as the Board may specify in the SAR Award.

(c) Exercise. Stock Appreciation Rights may be exercised by delivery to the Company of a written notice of exercise signed by the proper person or by any other form of notice (including electronic notice) approved by the Board, together with any other documents required by the Board.

8. Restricted Stock; Restricted Stock Units

(a) General. The Board may grant Awards entitling recipients to acquire shares of Common Stock ("Restricted Stock"), subject to the right of the Company to repurchase all or part of such shares at their issue price or other stated or formula price (or to require forfeiture of such shares if issued at no cost) from the recipient in the event that conditions specified by the Board in the applicable Award are not satisfied prior to the end of the applicable restriction period or periods established by the Board for such Award. Instead of granting Awards for Restricted Stock, the Board may grant Awards entitling the recipient to receive shares of Common Stock to be delivered at the time such shares of Common Stock vest ("Restricted Stock Units") subject to such terms and conditions on the delivery of the shares of Common Stock as the Board shall determine (each Award for Restricted Stock or Restricted Stock Units, a "Restricted Stock Award").

(b) Limitations on Vesting.

(1) Subject to Section 6(d), Restricted Stock Awards that vest based on the passage of time alone shall be zero percent vested prior to the first anniversary of the date of grant, no more than 33-1/3% vested prior to the second anniversary of the date of grant, and no more than 66-2/3% vested prior to the third anniversary of the date of grant. Restricted Stock Awards that vest upon the passage of time and provide for accelerated vesting based on performance shall not vest prior to the first anniversary of the date of grant. This subsection (b)(1) shall not apply to Awards granted pursuant to Section 11(i).

(2) Notwithstanding any other provision of this Plan, the Board may, in its discretion, either at the time a Restricted Stock Award is made or at any time thereafter, waive its right to repurchase shares of Common Stock (or waive the forfeiture thereof) or remove or modify any part or all of the restrictions applicable to the Restricted Stock Award, provided that the Board may only exercise such rights in extraordinary circumstances which shall include, without limitation, death or disability of the Participant; estate planning needs of the Participant; a merger, consolidation, sale, reorganization, recapitalization, or change in control of the Company; or any other nonrecurring significant event affecting the Company, a Participant or the Plan.

(c) Terms and Conditions. The Board shall determine the terms and conditions of any such Restricted Stock Award, including the conditions for repurchase (or forfeiture) and the issue price, if any.

(d) Stock Certificates. Any stock certificates issued in respect of a Restricted Stock Award shall be registered in the name of the Participant and, unless otherwise determined by the Board, deposited by the Participant, together with a stock power endorsed in blank, with the Company (or its designee). At the expiration of the applicable restriction periods, the Company (or such designee) shall deliver the certificates no longer subject to such restrictions to the Participant or if the Participant has died, to the beneficiary designated, in a manner determined by the Board, by a Participant to receive amounts due or exercise rights of the Participant in the event of the Participant's death (the "Designated Beneficiary"). In the absence of an effective designation by a Participant, "Designated Beneficiary" shall mean the Participant's estate.

9. Other Stock-Based Awards

Other Awards of shares of Common Stock, and other Awards that are valued in whole or in part by reference to, or are otherwise based on, shares of Common Stock or other property, may be granted hereunder to Participants ("Other Stock Unit Awards"). Such Other Stock Unit Awards shall also be available as a form of payment in the settlement of other Awards granted under the Plan or as payment in lieu of compensation to which a Participant is otherwise entitled. Other Stock Unit Awards may be paid in shares of Common Stock or cash, as the Board shall determine. Subject to the provisions of the Plan, the Board shall determine the conditions of each Other Stock Unit Awards, including any purchase price applicable thereto.

10. Adjustments for Changes in Common Stock and Certain Other Events.

(a) Changes in Capitalization. In the event of any stock split, reverse stock split, stock dividend, recapitalization, combination of shares, reclassification of shares, spin-off or other similar change in capitalization or event, or any distribution to holders of Common Stock other than an ordinary cash dividend, (1) the number and class of securities available under this Plan,

(2) the sub-limits set forth in Sections 4(b), 6(a) and 6(b), (3) the number and class of securities and exercise price per share of each outstanding Option, (4) the share - and per share provisions of each outstanding Restricted Stock Unit,(5) the share- and per-share provisions of each outstanding Stock Appreciation Right, (6) the repurchase price per share subject to each outstanding Restricted Stock Award and (7) the share- and per-share-related provisions of each outstanding Other Stock Unit Award, shall be appropriately adjusted by the Company (or substituted Awards may be made, if applicable) to the extent determined by the Board.

(b) Reorganization Events.

(1) Definition. A "Reorganization Event" shall mean: (i) any merger or consolidation of the Company with or into another entity as a result of which all of the Common Stock of the Company is converted into or exchanged for the right to receive cash, securities or other property or is cancelled, (ii) any exchange of all of the Common Stock of the Company for cash, securities or other property pursuant to a share exchange transaction or (iii) any liquidation or dissolution of the Company.

(2) Consequences of a Reorganization Event on Awards Other than Restricted Stock Awards. In connection with a Reorganization Event, the Board shall take any one or more of the following actions as to all or any outstanding Awards on such terms as the Board determines: (i) provide that Awards shall be assumed, or substantially equivalent Awards shall be substituted, by the acquiring or succeeding corporation (or an affiliate thereof), (ii) upon written notice to a Participant, provide that the Participant's unexercised Options or other unexercised Awards shall become exercisable in full and will terminate immediately prior to the consummation of such Reorganization Event unless exercised by the Participant within a specified period following the date of such notice, (iii) provide that outstanding Awards shall become realizable or deliverable, or restrictions applicable to an Award shall lapse, in whole or in part prior to or upon such Reorganization Event, (iv) in the event of a Reorganization Event under the terms of which holders of Common Stock will receive upon consummation thereof a cash payment for each share surrendered in the Reorganization Event (the "Acquisition Price"), make or provide for a cash payment to a Participant equal to (A) the Acquisition Price times the number of shares of Common Stock subject to the Participant's Options or other Awards (to the extent the exercise price does not exceed the Acquisition Price) minus (B) the aggregate exercise price of all such outstanding Options or other Awards, in exchange for the termination of such Options or other Awards, (v) provide that, in connection with a liquidation or dissolution of the Company, Awards shall convert into the right to receive liquidation proceeds (if applicable, net of the exercise price thereof) and (vi) any combination of the foregoing.

For purposes of clause (i) above, an Option shall be considered assumed if, following consummation of the Reorganization Event, the Option confers the right to purchase, for each share of Common Stock subject to the Option immediately prior to the consummation of the Reorganization Event, the consideration (whether cash, securities or other property) received as a result of the Reorganization Event by holders of Common Stock for each share of Common Stock held immediately prior to the consummation of the Reorganization Event (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Common Stock); provided, however, that if the consideration received as a result of the Reorganization Event is not solely common stock of the acquiring or succeeding corporation (or an affiliate thereof), the Company may, with the consent of the acquiring or succeeding corporation, provide for the consideration to be received upon the exercise of Options to consist solely of common stock of the acquiring or succeeding corporation (or an affiliate thereof) equivalent in fair market value to the per share consideration received by holders of outstanding shares of Common Stock as a result of the Reorganization Event.

To the extent all or any portion of an Option becomes exercisable solely as a result of clause (ii) above, the Board may provide that upon exercise of such Option the Participant shall receive shares subject to a right of repurchase by the Company or its successor at the Option exercise price; such repurchase right (A) shall lapse at the same rate as the Option would have become exercisable under its terms and (B) shall not apply to any shares subject to the Option that were exercisable under its terms without regard to clause (ii) above.

(3) Consequences of a Reorganization Event on Restricted Stock Awards. Upon the occurrence of a Reorganization Event other than a liquidation or dissolution of the Company, the repurchase and other rights of the Company under each outstanding Restricted Stock Award shall inure to the benefit of the Company's successor and shall apply to the cash, securities or other property which the Common Stock was converted into or exchanged for pursuant to such Reorganization Event in the same manner and to the same extent as they applied to the Common Stock subject to such Restricted Stock Award. Upon the occurrence of a Reorganization Event involving the liquidation or dissolution of the Company, except to the extent specifically provided to the contrary in the instrument evidencing any Restricted Stock Award or any other agreement between a Participant and the Company, all restrictions and conditions on all Restricted Stock Awards then outstanding shall automatically be deemed terminated or satisfied.

11. General Provisions Applicable to Awards

(a) Transferability of Awards. Except as the Board may otherwise determine or provide in an Award, Awards shall not be sold, assigned, transferred, pledged or otherwise encumbered by the person to whom they are granted, either voluntarily or by operation of law, except by will or the laws of descent and distribution or, other than in the case of an Incentive Stock Option, pursuant to a qualified domestic relations order, and, during the life of the Participant, shall be exercisable only by the Participant. References to a Participant, to the extent relevant in the context, shall include references to authorized transferees.

(b) Documentation. Each Award shall be evidenced in such form (written, electronic or otherwise) as the Board shall determine. Each Award may contain terms and conditions in addition to those set forth in the Plan.

(c) Board Discretion. Except as otherwise provided by the Plan, each Award may be made alone or in addition or in relation to any other Award. The terms of each Award need not be identical, and the Board need not treat Participants uniformly.

(d) Termination of Status. The Board shall determine the effect on an Award of the disability, death, retirement, authorized leave of absence or other change in the employment or other status of a Participant and the extent to which, and the period during which, the Participant, or the Participant's legal representative, conservator, guardian or Designated Beneficiary, may exercise rights under the Award.

(e) Withholding. Each Participant shall pay to the Company, or make provision satisfactory to the Company for payment of, any taxes required by law to be withheld in connection with an Award to such Participant. Except as the Board may otherwise provide in an Award, for so long as the Common Stock is registered under the Exchange Act, Participants may satisfy such tax obligations in whole or in part by delivery of shares of Common Stock, including shares retained from the Award creating the tax obligation, valued at their Fair Market Value; provided, however, except as otherwise provided by the Board, that the total tax withholding where stock is being used to satisfy such tax obligations cannot exceed the Company's minimum statutory withholding obligations (based on minimum statutory withholding rates for federal and state tax purposes, including payroll taxes, that are applicable to such supplemental taxable income). Shares surrendered to satisfy tax withholding requirements cannot be subject to any repurchase, forfeiture, unfulfilled vesting or other similar requirements. The Company may, to the extent permitted by law, deduct any such tax obligations from any payment of any kind otherwise due to a Participant.

(f) Amendment of Award. Except as otherwise provided in Section 5(d), the Board may amend, modify or terminate any outstanding Award, including but not limited to, substituting therefor another Award of the same or a different type, changing the date of exercise or realization, and converting an Incentive Stock Option to a Nonstatutory Stock Option, provided that the Participant's consent to such action shall be required unless the Board determines that the action, taking into account any related action, would not materially and adversely affect the Participant.

(g) Conditions on Delivery of Stock. The Company will not be obligated to deliver any shares of Common Stock pursuant to the Plan or to remove restrictions from shares previously delivered under the Plan until (1) all conditions of the Award have been met or removed to the satisfaction of the Company, (2) in the opinion of the Company's counsel, all other legal matters in connection with the issuance and delivery of such shares have been satisfied, including any applicable securities laws and any applicable stock exchange or stock market rules and regulations, and (3) the Participant has executed and delivered to the Company such representations or agreements as the Company may consider appropriate to satisfy the requirements of any applicable laws, rules or regulations.

(h) Acceleration. Except as otherwise provided in Section 8(b), the Board may at any time provide that any Award shall become immediately exercisable in full or in part, free of some or all restrictions or conditions, or otherwise realizable in full or in part, as the case may be.

(i) Performance Conditions.

(1) This Section 11(i) shall be administered by the Compensation Committee, all of the members of which will be "outside directors" as defined by Section 162(m) (the "Compensation Committee").

(2) Notwithstanding any other provision of the Plan, if the Compensation Committee determines, at the time a Restricted Stock Award or Other Stock Unit Award is granted to a Participant who is then an officer, that such Participant is, or is likely to be as of the end of the tax year in which the Company would claim a tax deduction in connection with such Award, a Covered Employee (as defined in Section 162(m)), then the Compensation Committee may provide that this Section 11(i) is applicable to such Award.

(3) If a Restricted Stock Award or Other Stock Unit Award is subject to this Section 11(i), then the lapsing of restrictions thereon and the distribution of cash or Shares pursuant thereto, as applicable, shall be subject to the achievement of one or more objective performance goals established by the Compensation Committee, which shall be based on the relative or absolute attainment of specified levels of one or any combination of the following: (i) earnings per share, (ii) return on average equity or average assets with respect to a pre-determined peer group, (iii) earnings, (iv) earnings growth, (v) revenues, (vi) revenue growth, (vii) expenses, (viii) stock price, (ix) market share, (x) return on sales, assets, equity or investment, (xi) regulatory compliance, (xii) improvement of financial ratings, (xiii) achievement of balance sheet or income statement objectives, (xiv) total shareholder return, (xv) net operating profit after tax, (xvi) pre-tax or after-tax income, (xvii) cash flow, (xviii) gross margin, (xix) gross margin growth, (xx) product schedule, (xxi) product quality, (xxii) individual balance sheet categories or (xxiii) such other objective goals established by the Board, and may be absolute in their terms or measured against or in relationship to other companies

comparably, similarly or otherwise situated. Such performance goals may be adjusted to exclude any one or more of (A) extraordinary items, (B) gains or losses on the dispositions of discontinued operations, (C) the cumulative effects of changes in accounting principles, (D) the writedown of any asset, (E) charges for restructuring and rationalization programs or (F) foreign exchange impact. Such performance goals may vary by Participant and may be different for different Awards. Such performance goals shall be set by the Compensation Committee within the time period prescribed by, and shall otherwise comply with the requirements of, Section 162(m).

(4) Notwithstanding any provision of the Plan, with respect to any Restricted Stock Award or Other Stock Unit Award that is subject to this Section 11(i), the Compensation Committee may adjust downwards, but not upwards, the cash or number of Shares payable pursuant to such Award, and the Compensation Committee may not waive the achievement of the applicable performance goals except in the case of the death or disability of the Participant.

(5) The Compensation Committee shall have the power to impose such other restrictions on Awards subject to this Section 11(i) as it may deem necessary or appropriate to ensure that such Awards satisfy all requirements for "performance-based compensation" within the meaning of Section 162(m)(4)(C) of the Code, or any successor provision thereto.

12. Miscellaneous

(a) No Right To Employment or Other Status. No person shall have any claim or right to be granted an Award, and the grant of an Award shall not be construed as giving a Participant the right to continued employment or any other relationship with the Company. The Company expressly reserves the right at any time to dismiss or otherwise terminate its relationship with a Participant free from any liability or claim under the Plan, except as expressly provided in the applicable Award.

(b) No Rights As Stockholder. Subject to the provisions of the applicable Award, no Participant or Designated Beneficiary shall have any rights as a stockholder with respect to any shares of Common Stock to be distributed with respect to an Award until becoming the record holder of such shares. Notwithstanding the foregoing, in the event the Company effects a split of the Common Stock by means of a stock dividend and the exercise price of and the number of shares subject to such Option are adjusted as of the date of the distribution of the dividend (rather than as of the record date for such dividend), then an optionee who exercises an Option between the record date and the distribution date for such stock dividend shall be entitled to receive, on the distribution date, the stock dividend with respect to the shares of Common Stock acquired upon such Option exercise, notwithstanding the fact that such shares were not outstanding as of the close of business on the record date for such stock dividend.

(c) Effective Date and Term of Plan. The Plan shall become effective on the date on which it is adopted by the Board, but no Award may be granted unless and until the Plan has been approved by the Company's stockholders. No Awards shall be granted under the Plan after the completion of 10 years from the earlier of (1) the date on which the Plan was adopted by the Board or (2) the date the Plan was approved by the Company's stockholders, but Awards previously granted may extend beyond that date.

(d) Amendment of Plan. The Board may amend, suspend or terminate the Plan or any portion thereof at any time, provided that, to the extent required by Section 162(m), no Award granted to a Participant that is intended to comply with Section 162(m) after the date of such amendment shall become exercisable, realizable or vested, as applicable to such Award, unless and until such amendment shall have been approved by the Company's stockholders if required by Section 162(m) (including the vote required under Section 162(m)); and provided further that, without approval of the Company's stockholders, no amendment may (1) increase the number of shares authorized under the Plan (other than pursuant to Section 10), (2) materially increase the benefits provided under the Plan, (3) materially expand the class of participants eligible to participate in the Plan, (4) expand the types of Awards provided under the Plan or (5) make any other changes that require stockholder approval under the rules of the Nasdaq National Market, Inc. In addition, if at any time the approval of the Company's stockholders is required as to any other modification or amendment under Section 422 of the Code or any successor provision with respect to Incentive Stock Options, the Board may not effect such modification or amendment without such approval. No Award shall be made that is conditioned upon stockholder approval of any amendment to the Plan.

(e) Provisions for Foreign Participants. The Board may modify Awards or Options granted to Participants who are foreign nationals or employed outside the United States or establish subplans or procedures under the Plan to recognize differences in laws, rules, regulations or customs of such foreign jurisdictions with respect to tax, securities, currency, employee benefit or other matters.

(f) Governing Law. The provisions of the Plan and all Awards made hereunder shall be governed by and interpreted in accordance with the laws of the State of Delaware, without regard to any applicable conflicts of law.

AVID TECHNOLOGY, INC.

CONSULTING AGREEMENT - INDIVIDUAL

This Agreement is made this 25th day of July, 2005 by and between Avid Technology, Inc., a Delaware corporation with principal offices at Avid Technology Park, One Park West, Tewksbury, Massachusetts 01876 ("AVID") and Jay Anderson, an individual residing at the address set forth on the signature page hereto ("CONSULTANT").

1. Position and Responsibilities:

1.1 Consultant agrees to serve as a consultant for Avid and perform the services set forth in each Avid Consulting Work Order attached to this Agreement ("Work Order"). Avid and Consultant may have multiple Work Orders associated with this Agreement.

1.2 The parties agree that Avid shall have approval of the activities set forth in each Work Order, including any acceptance criteria, final approval, and deadlines. Consultant agrees to abide by the specifications and schedule as set forth in each Work Order. Consultant agrees to abide by Avid standard employee guidelines, including, but not limited to, Avid's security policies.

2. Term and Termination:

2.1 The initial term of this Agreement shall begin on the date of the closing of the acquisition of Pinnacle Systems, Inc. by Avid and continue through December 31, 2005.

2.2 Avid may terminate this Agreement at any time without cause upon fourteen (14) calendar days prior written notice to Consultant, provided, that if Avid terminates this Agreement prior to October 31, 2005, Consultant shall be entitled to be paid through October 31, 2005. Such payment shall constitute full settlement of any and all claims of the Consultant of every description against Avid. Notwithstanding the foregoing, Avid may terminate this Agreement effective immediately for "cause", which shall mean misconduct, including but not limited to (1) participation in a fraud or act of dishonesty against Avid; (2) willful breach of any Avid policy; (3) intentional damage to Avid's property; (4) material breach of this Agreement or (5) failure by you to substantially perform your duties for Avid (other than any such failure resulting from your incapacity due to physical or mental illness).

3. Compensation:

3.1 As sole and complete consideration for the services provided under any Work Order, Avid shall pay Consultant the amounts set forth in such Work Order and all amounts shall be due and payable as provided in such Work Order.

4. Confidential Information:

4.1 Consultant agrees to keep confidential and not disclose or make any use of, either during or subsequent to this Agreement, any Inventions (as defined in Section 5.1), trade secrets, confidential information, knowledge, data or other information of Avid relating to products,

processes, know-how, designs, formulas, test data, customer lists, business plans, marketing plans and strategies, or other subject matter pertaining to any business of Avid or any of its affiliates, customers, or suppliers, or of any other third parties who may have disclosed or entrusted such information to Avid, which Consultant may learn, obtain, produce, or otherwise acquire during the course of this consulting relationship (collectively, "Confidential Information"), except as herein provided. The parties agree that no information shall be subject to the Confidential Information provisions of this Agreement if Consultant can prove, using tangible evidence, that subsequent to the receipt thereof (i) it has been published by Avid or disclosed by Avid to others without restriction, (ii) it has been lawfully obtained by

Consultant from another source, provided such other source did not receive it due to a breach of this Agreement or any other agreement, (iii) it otherwise has come within the public knowledge or become generally known to the public through no breach of any agreement; or (iv) it has been independently developed by the Consultant without reference to or use of the Confidential Information.

4.3 In the event this consulting arrangement with Avid terminates for any reason whatsoever, or upon Avid's request, Consultant agrees to promptly surrender and deliver to Avid all Confidential Information, which Consultant may have obtained from Avid or produced for Avid during the course of the consulting arrangement, and further Consultant agrees not to take with him/her any description containing or pertaining to any Confidential Information, which Consultant may obtain or produce during the course of this consulting arrangement.

5. Inventions:

5.1 For the purposes of this Agreement, "Inventions" shall mean all discoveries, processes, designs, technologies, devices, or improvements in any of the foregoing or other ideas, whether or not patentable and whether or not reduced to practice, made or conceived by Consultant (whether solely or jointly with others) during the period of this Agreement, which relate specifically to Avid's business, work, or research and development, or to any work performed by Consultant for or on behalf of Avid. Consultant agrees to keep and maintain adequate and current written records of all Inventions made by Consultant (in the form of notes, sketches, drawings and other records as may be specified by Avid), which records shall be available to and remain the sole property of Avid at all times.

5.2 Consultant hereby acknowledges and agrees that Avid is the exclusive owner of all Inventions. In order to protect Avid's rights to such Inventions, Consultant hereby irrevocably assigns and agrees to assign all of his/her right, title and interest in and to all Inventions to Avid. Consultant acknowledges and agrees that all copyrightable Inventions shall be "works made for hire" as that term is defined in the United States Copyright Act (17 U.S.C., Section 101), and shall be exclusively owned by Avid. Consultant agrees to promptly disclose any and all Inventions to Avid in order to permit Avid to enforce its proprietary rights to any such Inventions in accordance with this Agreement.

5.3 Any discovery, process, design, technology, device, or improvement in any of the foregoing or other ideas, whether or not patentable and whether or not reduced to practice, made or conceived by Consultant (whether solely or jointly with others) which Consultant develops entirely on his/her own time not using any of Avid's equipment, supplies, facilities, or trade secret information ("Personal Invention") is excluded from this Agreement provided such Personal Invention: (a) does not relate to the actual or demonstrably anticipated business, research and development of Avid, and (b) does not result, directly or indirectly, from any work performed by Consultant for Avid.

5.4 Upon request, Consultant agrees to assist Avid or its nominee (at Avid's expense) in every reasonable way, at any time, to obtain for Avid's exclusive benefit, patents and copyrights for Inventions in any and all countries. Such patents and copyrights shall be and remain the sole and exclusive property of Avid or its nominee. Consultant agrees to perform such lawful acts as Avid deems necessary to allow it to exercise all right, title and interest in and to such patents and copyrights. Further, Consultant agrees to execute, acknowledge and deliver to Avid or its nominee upon request and at Avid's expense all documents, including assignments of title, patent or copyright applications, assignments of such applications, assignments of patents or copyrights upon issuance, as Avid may determine necessary or desirable to protect Avid's or its nominee's interest in Inventions, and/or to use in obtaining patents or copyrights in any and all countries and to vest title thereto in Avid or its nominee to any of the foregoing.

5.5 Consultant acknowledges that Avid from time to time may have agreements with other persons or with the U.S. Government or agencies thereof, which impose obligations or restrictions on Avid regarding Inventions made during the course of work thereunder or regarding the confidential nature of such work. Consultant agrees to be bound by all such obligations and restrictions to the extent that they are disclosed to Consultant and further to take all action necessary to discharge Avid's obligations thereunder.

6. No Conflicting Agreements; Other Activities during Employment:

6.1 Consultant represents, warrants and covenants that his/her obligations to Avid will not conflict with, be constrained by, or constitute a breach of any prior, current or future consulting or other agreements, whether written or oral. Consultant further represents, warrants and covenants that he/she will neither disclose to Avid, nor induce Avid to use, any confidential or proprietary information or material belonging to any third party, in his/her performance of this Agreement.

6.2 Consultant agrees to devote his/her efforts to providing the services specified in any Work Order. Consultant agrees not to take on outside duties that would conflict with, or hinder, his/her ability to perform under this Agreement. If Consultant currently has any outside employment or directorships, Consultant shall list them in Exhibit A attached hereto and keep such Exhibit up to date throughout the term of this Agreement as necessary. If no Exhibit A is attached, then Consultant represents that he/she has no such outside employment or directorships.

7. License to Consultant Materials: To the extent that Consultant incorporates any pre-existing Consultant technology or intellectual property into the work performed or products delivered by Consultant to Avid, Consultant hereby grants Avid a worldwide, non-exclusive, transferable, perpetual, fully paid-up and royalty free license to use such Consultant technology or intellectual property as embodied in any work performed or products delivered to the extent necessary for Avid to

license, market, distribute, sell, and otherwise make full use of the work performed or products delivered alone or in combination with other technology as part of Avid's business.

8. Post Consulting Activities: In consideration of Avid's agreement to make the payments offered hereunder, Consultant agrees not to, at any time during the one-year period following the earlier of (a) termination of this Agreement or (b) December 31, 2005, either directly or indirectly, solicit or recruit (a) any employee of Avid, including any Avid subsidiary, to leave his or her employment with Avid or (b) any Avid client to terminate or reduce their business relationship with Avid. Consultant agrees to make the provisions of this Section 8 known to each of employers, and to each organization to which Consultant deliver services, through such one year period.

9. Exclusion Of Damages: IN NO EVENT SHALL AVID BE LIABLE TO CONSULTANT FOR ANY SPECIAL, INDIRECT, CONSEQUENTIAL, PUNITIVE, OR INCIDENTAL DAMAGES, INCLUDING, BUT NOT LIMITED TO, LOSS OF DATA, LOSS OF USE, OR LOST PROFIT DAMAGES, ARISING UNDER THIS AGREEMENT OR CONSULTANT'S WORK FOR AVID, REGARDLESS OF WHETHER AVID HAS BEEN INFORMED OF THE POSSIBILITY OF SUCH DAMAGES.

10. General:

10.1 Neither this Agreement nor any rights or benefits hereunder may be assigned by Consultant and any attempt to do so shall be null and void.

10.2 Consultant and Avid agree that if any provision of this Agreement is held to be invalid, illegal, or unenforceable, for any reason, such provision will be revised to the extent necessary to make it enforceable and this revision will not affect the other provisions of this Agreement.

10.3 Sections 4, 5, 7, 8, 9 and 10 of this Agreement shall survive the expiration or termination of this Agreement.

10.4 Notices under this Agreement shall be given by personal delivery, courier service, or registered or certified mail, return receipt requested. The date of personal delivery of such notice, or one (1) business day after the date on which such notice is sent via courier service, or three (3) business days after such notice is mailed, shall be deemed to be the delivery date.

10.5 No waiver of any right under this Agreement shall be effective unless in writing, signed by the party charged with such waiver, and no waiver of any right arising from any breach or failure to perform shall be deemed to be a waiver of any future such right or of any other right arising under this Agreement.

10.6 This Agreement, including all Work Orders and exhibits, constitutes the entire agreement of the parties with respect to the subject matter hereof, and supersedes any previous oral or written communications, representations, understandings, discussions, or agreements with Avid. Any amendments or modification to this Agreement or waiver by Avid of any right hereunder shall be effective only if evidenced by a written instrument executed by the parties hereto.

10.7 This Agreement shall be governed by and construed under the laws of the Commonwealth of Massachusetts without regard to its rules governing the conflict of laws that would cause the laws of any other jurisdiction to apply.

10.8 Consultant is an independent contractor, not an employee or agent of Avid. Consultant has no authority to represent or bind Avid in any way.

IN WITNESS WHEREOF, duly authorized representatives of the parties have executed this Agreement as of the day and year first above written.

AVID TECHNOLOGY, INC.	CONSULTANT
By: /s/ Jeffrey Hastings	/s/ Jay Anderson
Name: Jeffrey Hastings	Name: Jay Anderson
Title: COO, M-Audio	Date: July 25, 2005
Date: July 21, 2005	

Exhibit A

Employment and Directorships

Consulting Work Order

Consultant: Jay Anderson

Scope of Work:

Mr. Anderson will perform services for Avid in the role of Integration Leader from the date of the closing of the Pinnacle acquisition through December 31, 2005. Mr. Anderson's responsibilities will include:

- explaining historical policies and practices at Pinnacle and assisting Avid with the integration of such policies and practices;
- assisting with employee retention and morale issues;
- serving as a communication channel and focal point for the Avid integration team; and
- monitoring implementation of integration plans.

Specific Working Conditions

Standard Working Hours: 8:30a.m. to 5:00p.m., Monday through Friday, except for Avid recognized holidays.

Work Site Location:

Avid Technology, Inc.
Avid Technology Park
One Park West
Tewksbury, MA 01876

Compensation:

While performing these Consultant services, Consultant will earn compensation on a monthly bases based on an annual rate of three hundred and thirty-six thousand dollars ($336,000.00). Consultant shall have the option to have such compensation (a) paid in monthly increments or (b) paid in a single lump-sum payment following termination of this Agreement.

Loaned Equipment:

Mountain View, CA and San Francisco Bay Area

AVID TECHNOLOGY, INC.	JAY ANDERSON
By: /s/ Jeffrey Hastings	/s/ Jay Anderson
Name: Jeffery Hastings	Date: July 25, 2005
Title: COO M-Audio	
Date: July 21, 2005	

CERTIFICATION

I, David A. Krall, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Avid Technology, Inc.;

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

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

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

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

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: August 8, 2005

/s/ David A. Krall

David A. Krall
President and Chief Executive Officer
(principal executive officer)

CERTIFICATION

I, Paul J. Milbury, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Avid Technology, Inc.;

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

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

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

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

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: August 8, 2005

/s/ Paul J. Milbury

Paul J. Milbury
Chief Financial Officer
(principal financial officer)

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

In connection with the Quarterly Report on Form 10-Q of Avid Technologies, Inc. (the "Company") for the period ended June 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, David A. Krall, President and Chief Executive Officer of the Company, and Paul J. Milbury, Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

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

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

Dated: August 8, 2005

/s/ David A. Krall

David A. Krall
President and Chief Executive Officer

Dated: August 8, 2005

/s/ Paul J. Milbury

Paul J. Milbury
Chief Financial Officer