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 SEPTEMBER 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 _____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes _____ No X

The number of shares outstanding of the registrant's Common Stock as of October 27, 2005 was 41,668,062.

AVID TECHNOLOGY, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005

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

	Three Months Ended September 30,		Nine Months Ended Septmeber 30,	
	2005	2004	2005	2004
Net revenues:				
Product	$183,515	$131,550	$472,327	$369,403
Services	20,905	15,824	58,145	45,231
Total net revenues	204,420	147,374	530,472	414,634
Cost of revenues:				
Product	82,133	54,242	204,274	152,907
Services	11,587	8,603	31,684	25,036
Amortization of intangible assets	3,854	127	4,417	127
Total cost of revenues	97,574	62,972	240,375	178,070
Gross profit	106,846	84,402	290,097	236,564
Operating expenses:				
Research and development	29,636	23,879	79,225	69,096
Marketing and selling	44,601	32,009	120,895	93,354
General and administrative	12,188	9,266	32,961	23,500
In-process research and development	32,390	-	32,390	-
Restructuring costs	1,997	-	1,997	-
Amortization of intangible assets	2,544	988	5,729	1,976
Total operating expenses	123,356	66,142	273,197	187,926
Operating income (koss)	(16,510)	18,260	16,900	48,638
Interest income	1,618	718	3,478	1,856
Interest expense	(66)	(105)	(255)	(250)
Other income (expense), net	167	38	512	(920)
Income (loss) before income taxes	(14,791)	18,911	20,635	49,324
Provision for (benefit from) income taxes	2,966	(63)	5,080	137
Net income (loss)	($17,757)	$18,974	$15,555	$49,187
Net income (loss) per common share - basic	($0.46)	$0.58	$0.43	$1.54
Net income (loss) per common share - diluted	($0.46)	$0.54	$0.41	$1.43
Weighted average common shares outstanding - basic	38,935	32,737	36,381	31,857
Weighted average common shares outstanding - diluted	38,935	35,033	38,217	34,374

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

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

	September 30, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$113,739	$79,058
Marketable securities	114,900	76,361
Accounts receivable, net of allowances of $21,399 and $9,334 at September 30, 2005 and December 31, 2004, respectively	127,743	97,536
Inventories	93,219	53,946
Current deferred tax assets, net	600	653
Prepaid expenses	10,030	7,550
Other current assets	13,726	11,204
Total current assets	473,957	326,308
Property and equipment, net	39,237	29,092
Goodwill	395,832	165,803
Intangible assets, net	128,751	46,884
Long-term deferred tax assets, net	4,399	4,184
Other assets	5,147	3,963
Total assets	$1,047,323	$576,234
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$38,335	$26,517
Accrued compensation and benefits	31,831	30,468
Accrued expenses and other current liabilities	65,365	34,902
Income taxes payable	15,938	9,357
Deferred revenues	70,514	48,680
Total current liabilities	221,983	149,924
Long-term liabilities	11,736	1,689
Total liabilities	233,719	151,613
Contingencies (Note 7)		
Stockholders' equity:		
Common stock	417	348
Additional paid-in capital	920,596	546,849
Accumulated deficit	(107,220)	(122,775)
Deferred compensation	(2,308)	(4,392)
Accumulated other comprehensive income	2,119	4,591
Total stockholders' equity	813,604	424,621
Total liabilities and stockholders' equity	$1,047,323	$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)

	Nine Months Ended September 30,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$15,555	$49,187
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,971	10,931
Provision for doubtful accounts	687	91
In-process research and development	32,390	--
Gain on disposal of fixed assets	(55)	--
Compensation expense from stock grants and options	2,042	583
Equity in income of non-consolidated company	(254)	(85)
Changes in deferred tax assets and liabilities, excluding effects of acquisitions	(363)	--
Changes in operating assets and liabilities, excluding effects of acquisitions:		
Accounts receivable	(23,516)	(14,281)
Inventories	(16,744)	(715)
Prepaid expenses and other current assets	2,348	956
Accounts payable	530	3,774
Income taxes payable	3,783	1,156
Accrued expenses, compensation and benefits	(9,172)	2,236
Deferred revenues	10,103	3,301
NET CASH PROVIDED BY OPERATING ACTIVITIES	39,305	57,134
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(12,916)	(9,805)
Payments for other long-term assets	(782)	(485)
Payments for business acquisitions, including transaction costs, net of cash acquired	(5,049)	(135,205)
Cash received in business acquisition, including transaction costs, net of cash paid	24,942	--
Purchases of marketable securities	(68,153)	(45,808)
Proceeds from sales of marketable securities	47,618	86,981
NET CASH USED IN INVESTING ACTIVITIES	(14,340)	(104,322)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	(64)	(492)
Proceeds from issuance of common stock under employee stock plans	10,995	13,215
NET CASH PROVIDED BY FINANCING ACTIVITIES	10,931	12,723
Effect of exchange rate changes on cash and cash equivalents	(1,215)	(924)
Net increase (decrease) in cash and cash equivalents	34,681	(35,389)
Cash and cash equivalents at beginning of period	79,058	77,123
Cash and cash equivalents at end of period	$113,739	$41,734

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

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 statement. 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 $25.5 million of auction rate securities at December 31, 2003, and to include such amounts as marketable securities. As a result, cash used in investing activities decreased by $25.5 million for the nine months ended September 30, 2004. In addition, the Company has made corresponding adjustments to the accompanying statement of cash flows for the nine-month period ended September 30, 2004 to reflect the gross purchases and sales of these securities as investing activities. This change in classification does not affect previously reported cash flows from operations or from financing activities.

During the three months ended September 30, 2005, the Company began classifying certain European administrative expenses as general and administrative expense rather than marketing and selling expense in the consolidated statement of operations. The Company had previously classified these expenses as marketing and selling because the costs were primarily related to support the sales function in Europe. Due to changes in the Company's business and the acquisitions of Pinnacle, M-Audio and NXN that have occurred since January 2004, the general and administrative group in Europe is supporting all functional areas of the business. Therefore, the Company concluded that it was appropriate to reclassify such expenses. The corresponding amounts for all periods prior to the current quarter have been reclassified to conform to the current quarter presentation. For the six months ended June 30, 2005, the Company reclassified $3.5 million from marketing and selling expense to general and administrative expense. For the three- and nine-month periods ended September 30, 2004, the Company reclassified $1.6 million and $3.7 million respectively, from marketing and selling expense to general and administrative expense.

2. NET INCOME (LOSS) PER COMMON SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income (loss)	($17,757)	$18,974	$15,555	$49,187
Weighted average common shares outstanding - basic	38,935	32,737	36,381	31,857
Weighted average potential common stock:				
Options	-	2,296	1,722	2,517
Warrant	-	-	114	-
Weighted average common shares outstanding - diluted	38,935	35,033	38,217	34,374
Net income (loss) per common share - basic	($0.46)	$0.58	$0.43	$1.54
Net income (loss) per common share - diluted	($0.46)	$0.54	$0.41	$1.43

For the three- and nine-month periods ended September 30, 2005 and 2004, certain stock options and warrants have been excluded from the diluted net income (loss) per share calculation as their effect would be anti-dilutive. For periods that the Company reports a net loss, all potential common stock is considered anti-dilutive; for periods when the Company reports net income, only potential common shares with purchase prices in excess of the Company's average common stock fair value for the related period are considered anti-dilutive.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(in thousands)			
Options	4,230	242	786	191
Warrant	1,155	1,155	-	1,155
Total anti-dilutive common stock options and warrant	5,385	1,397	786	1,346

3. ACQUISITIONS

Pinnacle

On August 9, 2005, Avid completed the acquisition of California-based Pinnacle Systems, Inc. ("Pinnacle"), a supplier of digital video products to customers ranging from individuals to broadcasters. Under the terms of the agreement, Pinnacle common shareholders received 0.0869 of a share of Avid common stock plus $1.00 in cash for each share of Pinnacle common stock outstanding at the closing of the transaction. In total, Avid paid $72.1 million in cash and issued 6.2 million shares of common stock, resulting in common stock consideration of approximately $362.9 million in exchange for all of the outstanding shares of Pinnacle. The price used to value the Avid shares issued as partial consideration for Pinnacle was $58.09 per share of Avid common stock, which represents the five-day average closing price of the stock during the period beginning two days before and ending two days after the merger announcement date of March 21, 2005. Avid also incurred $6.0 million of transaction costs.

The Company has integrated Pinnacle's broadcast and professional offerings, including the Deko(R) on-air graphics system and the MediaStream(TM) playout server, within its Professional Film, Video and Broadcast segment and has formed a new Consumer Video segment that will offer Pinnacle's consumer products, including Pinnacle Studio(TM) and other products. The Company has performed a preliminary allocation of the total purchase price of $441 million to the net tangible and intangible assets of Pinnacle based on their fair values as of the consummation of the acquisition. The determination of these fair values included Avid management's consideration of a valuation of Pinnacle's intangible assets prepared by an independent valuation specialist. The purchase price allocation as of September 30, 2005 is considered preliminary and a final determination of

the fair value of assets acquired and liabilities assumed, including management's restructuring plan, will be made upon the finalization of Avid's planned integration activities, which is expected in the fourth quarter of 2005. The following table summarizes the preliminary purchase price allocation to the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Cash and marketable securities	$120,164
Accounts receivable, net	9,312
Inventories	20,099
Other current assets	7,859
Property and equipment and other long-term assets	12,413
Identifiable intangible assets:	
Customer relationships	34,400
Trade name	15,200
Developed technology	41,200
In-process research and development	32,300
Goodwill	225,207
Total assets acquired	518,154
Accounts payable	(11,069)
Accrued expenses and other current liabilities	(44,587)
Deferred revenue and deposits	(11,493)
Long-term deferred tax liabilities, net	(10,110)
Total liabilities assumed	(77,259)
Net assets acquired	$440,895

The identifiable intangible assets are being amortized over their estimated useful lives of six to seven years for customer relationships, seven years for the trade name, and two to three years for the developed technology. These intangible assets are being amortized using the straight-line method, with the exception of developed technology. Developed technology is being amortized on a product-by-product basis over the greater of the amount calculated using the ratio of current quarter revenues to the total of current quarter and anticipated future revenues over the estimated useful lives of two to three years, or the straight-line method over each product's remaining respective useful lives. Amortization expense for the current quarter for these intangibles and accumulated amortization at September 30, 2005 was $4.5 million.

The allocation of $32.3 million to in-process research and development ("R&D") was determined through management's consideration of a valuation prepared by an independent valuation specialist. This in-process R&D represents product development efforts that were underway at Pinnacle at the time of acquisition, for which technological feasibility had not yet been established. Technological feasibility is established when either of the following criteria is met: 1) the detail program design has been completed, documented, and traced to product specifications and its high-risk development issues have been resolved; or 2) a working model of the product has been finished and determined to be complete and consistent with the product design. Upon the acquisition, Pinnacle did not have a completed product design or working model for the in-process technology and the Company believes that there is no future alternative use for such technology beyond the stated purpose of the specific R&D project; therefore the in-process R&D of $32.3 million was expensed during the three months ended September 30, 2005.

Based on the preliminary purchase price allocation, the goodwill of $225 million resulting from the purchase price allocation reflects the value of the underlying enterprise, as well as planned synergies that Avid expects to realize, including incremental sales of legacy Avid video products. Of the total $225 million of goodwill, $90 million has been assigned to the Company's Professional Film, Video and Broadcast segment, and $135 million has been assigned to the newly formed Consumer Video segment. This amount allocated to goodwill will be finalized in conjunction with the finalization of the purchase price allocation and the Company's integration activities. This goodwill will not be amortized, in accordance with the requirements of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". This goodwill is not deductible for tax purposes.

Wizoo

In August 2005, Avid acquired all the outstanding shares of Wizoo Sound Design GmbH ("Wizoo"), a Germany-based provider of virtual instruments for music producers and sound designers, for cash of (euro) 4 million ($4.9 million) plus transaction costs of $0.2 million. The purchase price was allocated as follows: ($0.6 million) to net liabilities assumed, $1.2 million to identifiable intangible assets, $0.1 million to in-process research and development, and the remaining $4.4 million to goodwill. The identifiable intangible assets, which include developed technology of $0.6 million and license agreements of $0.6 million, are being amortized on a straight-line basis over their estimated useful lives of two to four years and three to four years, respectively. The goodwill of $4.4 million, which reflects the value of the assembled workforce and the synergies the Company hopes to realize by integrating the Wizoo technology with its other products, is reported within the Company's Audio segment and is not deductible for tax purposes.

As part of the purchase agreement, Avid may be required to make additional payments to the former shareholders of Wizoo of up to (euro) 1.0 million ($1.2 million), contingent upon Wizoo achieving certain engineering milestones through January 2008. These payments, if required, will be recorded as additional purchase consideration, allocated to goodwill. As of September 30, 2005, none of the engineering milestones have been met; therefore, no amount has been recorded as additional purchase price.

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 September 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 and $3.6 million for the three- and nine-month periods ended September 30, 2005, respectively and accumulated amortization of these intangible assets was $5.4 million at September 30, 2005. Also during the nine-month period ended September 30, 2005, the $122.0 million of goodwill was reduced by $1.2 million to $120.8 million due to the resolution of tax contingencies.

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 and $0.7 million for the three- and nine-month periods ended September 30, 2005, respectively and accumulated amortization of this asset was $1.0 million at September 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 was 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, with the payments to be recorded as additional purchase consideration, allocated to goodwill. Through the nine months ended September 30, 2005 the Company estimated that the 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 a 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 and $0.8 million for the three- and nine-month periods ended September 30, 2005, respectively and accumulated amortization of these assets was $1.7 million at September 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 Pinnacle, Wizoo, 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 nine-month periods ended September 30, 2005 and 2004 as if the acquisitions of Pinnacle, M-Audio and NXN had occurred at the beginning of 2004. The Company's pro forma results of operations giving effect to the Wizoo and Avid Nordic AB acquisitions as if each 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 September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
(In thousands, except per share data)				
Net revenues	$212,692	$219,544	$658,482	$677,125
Net income (loss)	($8,051)	$192	$2,709	($19,218)
Net income (loss) per share:				
Basic	($0.19)	-	$0.07	($0.48)
Diluted	($0.19)	-	$0.06	($0.48)

Included in the pro forma net income reported above for the nine-month period ended September 30, 2004 is a charge of $32.3 million for in-process research and development related to the Pinnacle acquisition.

4. ACCOUNTS RECEIVABLE

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

	September 30, 2005	December 31, 2004
Accounts receivable	$149,142	$106,870
Less:		
Allowance for doubtful accounts	(5,644)	(4,132)
Allowance for sales returns and rebates	(15,755)	(5,202)
	$127,743	$97,536

The allowance for doubtful accounts represents an allowance for estimated bad debt losses resulting from the inability of customers to make required payments for products or services. When evaluating the adequacy of this allowance, the Company analyzes accounts receivable balances, historical bad debt experience, customer concentrations, customer credit-worthiness and current economic trends. The allowance for sales returns and rebates, which includes 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 and other allowances 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. The increase in accounts receivable allowances is due primarily to the acquisition of Pinnacle in the third quarter of 2005 and the resulting inclusion of reserves for actual return rates and price protection programs for the new Consumer Video segment. The Pinnacle-related allowance for doubtful accounts and allowance for sales returns and rebates as of September 30, 2005 is $1.8 million and $10.6 million, respectively.

5. INVENTORIES

Inventories consisted of the following (in thousands):

	September 30, 2005	December 31, 2004
Raw materials	$29,514	$14,925
Work in process	9,618	3,622
Finished goods	54,087	35,399
	$93,219	$53,946

As of September 30, 2005 and December 31, 2004, the finished goods inventory included inventory at customer locations of $11.3 million and $9.0 million, respectively, associated with product shipped to customers for which revenue had not yet been recognized. Of the $39.3 million increase in inventory since December 31, 2004, approximately $25.1 million relates to acquired Pinnacle inventory, of which $4.6 million, $5.2 million, and $15.3 million represents raw material, work in process, and finish goods as of September 30, 2005, respectively.

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 and directors 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 with exercise prices 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 nine- month periods ended September 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 September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income (loss) as reported	($17,757)	$18,974	$15,555	$49,187
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	528	557	2,042	583
Deduct: Total stock-based employee compensation expense determined under the fair value-based method for all awards, net of related tax effects	(6,199)	(4,346)	(16,923)	(11,657)
Pro forma net income (loss)	($23,428)	$15,185	$674	$38,113
Net income (loss) per share:				
Basic-as reported	($0.46)	$0.58	$0.43	$1.54
Basic-pro forma	($0.60)	$0.46	$0.02	$1.20
Diluted-as reported	($0.46)	$0.54	$0.41	$1.43
Diluted-pro forma	($0.60)	$0.44	$0.02	$1.12

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.

In anticipation of the adoption of SFAS No. 123(R), on October 26, 2005, the Company's Board of Directors approved a partial acceleration of the vesting of all outstanding options to purchase the Company's common stock that were granted on February 17, 2005. Vesting was accelerated for options to purchase 371,587 shares of the Company's common stock, par value $0.01 per share, with an exercise price of $65.81 per share, including options to purchase 157,624 shares of the Company's common stock held by the Company's executive officers. The decision to accelerate vesting of these options was made to avoid recognizing compensation cost related to these out-of-the-money options in the Company's future statements of operations upon the effectiveness of SFAS 123(R). It is estimated that the maximum future compensation expense that would have been recorded in the Company's statements of operations had the vesting of these options not been accelerated is approximately $4.9 million.

7. 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 from time to time 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, Avid was notified by the Korean Federal Trade Commission ("KFTC") that a former reseller, Neat Information Telecommunication, Inc. ("Neat"), had filed a complaint against Avid alleging unfair trade practices. On August 11, 2005, the KFTC issued a decision in favor of Avid regarding the complaint filed by Neat. However, Neat filed a second complaint with the KFTC on October 25, 2005. In addition, on October 14, 2005, Neat filed a civil lawsuit in South Korea against Avid alleging unfair trade practices. In the civil action, Neat is seeking approximately $1,700,000 in damages, plus interest and attorneys' fees. Avid believes that Neat's claims are without merit, and will defend itself vigorously against the latest actions. Because the Company cannot predict the outcome of these matters at this time, no costs have been accrued for the possible loss contingency.

In September 2003, Pinnacle, which Avid recently acquired and is now a wholly-owned subsidiary, was named as a defendant in a suit filed in the Superior Court of California, Alameda County. The complaint was filed by YouCre8, a/k/a DVDCre8, Inc., a software company whose software was distributed by Dazzle Multimedia, Inc. The complaint alleges that in connection with Pinnacle's acquisition of certain assets of Dazzle, Pinnacle tortiously interfered with DVDCre8's relationship with Dazzle and others, engaged in acts to restrain competition in the DVD software market, and distributed false and misleading statements which caused harm to DVDCre8. Dazzle and its parent company, SCM Microsystems, Inc., were also named as defendants in this matter. The complaint seeks unspecified damages and injunctive relief. Pursuant to the Asset Purchase Agreement among SCM, Dazzle and Pinnacle, Pinnacle is seeking indemnification from SCM and Dazzle for all or part of the damages and the expenses incurred to defend these claims. SCM and Dazzle, in turn, are seeking indemnification from Pinnacle for all or part of the damages and expenses incurred by them to defend these claims. Avid believes the complaint is without merit and will defend it vigorously. However, an adverse resolution of this litigation could have a material adverse effect on our consolidated financial position in the period in which the litigation is resolved. Amounts accrued related to this litigation as part of the Pinnacle purchase price allocation during the three months ended September 30, 2005 are considered immaterial to the Company's consolidated financial statements.

From time to time, the Company provides indemnification provisions in agreements with customers covering potential claims by third parties of intellectual property infringement. These agreements generally provide that the Company will indemnify customers for losses incurred in connection with an infringement claim brought by a third party with respect to the Company's 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 incurred material costs related to 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 agreed to indemnify its officers and directors for certain events that occur while the officer or director is serving in such capacity. The term of the indemnification period is for each respective 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 September 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 September 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 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 September 30, 2005 and December 31, 2004, Avid's maximum recourse exposure totaled approximately $13.4 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 significant 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 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 September 30, 2005 and December 31, 2004, the Company's accrual for estimated losses was $2.0 million and $2.2 million, respectively.

Avid provides warranties on hardware sold through its Professional Film, Video and Broadcast 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 and Consumer Video segments, Avid provides warranties 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):

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Accrual balance at December 31, 2004	$2,261	$1,355
Acquired product warranty	3,510	-
Accruals for product warranties	3,458	2,651
Cost of warranty claims	(2,800)	(1,894)
Accrual balance at end of period	$6,429	$2,112

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 September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income (loss)	($17,757)	$18,974	$15,555	$49,187
Net changes in:				
Foreign currency translation adjustment	575	1,459	(2,611)	75
Unrealized gains (losses) on securities	4	99	139	(206)
Total comprehensive income (loss)	($17,178)	$20,532	$13,083	$49,056

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 three reportable segments: Professional Film, Video and Broadcast, Audio, and Consumer Video. The following is a summary of the Company's operations by reportable segment (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Professional Film, Video and Broadcast:				
Net revenues	$118,924	$95,605	$318,393	$284,015
Operating income	$13,402	$11,395	$35,600	$32,706
Audio:				
Net revenues	$66,986	$51,769	$193,569	$130,619
Operating income	$11,144	$8,533	$27,476	$18,588

Consumer Video:				
Net revenues	$18,510	-	$18,510	-
Operating income	$187	-	$187	-
Combined Segments:				
Net revenues	$204,420	$147,374	$530,472	$414,634
Operating income	$24,733	$19,928	$63,263	$51,294

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Total operating income for reportable segments	$24,733	$19,928	$63,263	$51,294
Unallocated amounts:				
Restructuring costs	(1,997)	-	(1,997)	-
Stock-based compensation	(458)	(553)	(1,830)	(553)
In-process research and development	(32,390)	-	(32,390)	-
Amortization of acquisition-related intangible assets	(6,398)	(1,115)	(10,146)	(2,103)
Consolidated operating income	($16,510)	$18,260	$16,900	$48,638

As of September 30, 2005, the Company estimates that the total Pinnacle assets allocated to the Professional Film, Video and Broadcast segment and the newly formed Consumer Video segment, which are considered by management in evaluating the results of the segments, are approximately $29.0 million and $33.0 million, respectively.

10. RESTRUCTURING COSTS AND ACCRUALS

In September 2005, the Company recorded a charge of $2.0 million in connection with a revised estimate of the lease obligation associated with a facility that was vacated as part of a restructuring plan in 1999. The revision was necessary due to one of the subtenants in the facility giving notice of their intention to discontinue their sublease. The lease extends through September 2010.

In connection with the Pinnacle acquisition, the Company recorded accruals of $13.6 million as of September 30, 2005, the components of which are disclosed in the table below, related to severance agreements and lease or other contract terminations in accordance with EITF 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination".

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 September 2005, 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 nine months ended September 30, 2005 (in thousands):

	Facilities Related	Employee Related	Total
Accrual balance at December 31, 2004	$3,534	-	$3,534
Pinnacle acquisition-related liabilities	3,739	9,858	13,597
Revised estimate of lease obligations	1,997	-	1,997
Cash payments, net of sublease income	(1,240)	(5,793)	(7,033)
Accrual balance at September 30, 2005	$8,030	$4,065	$12,095

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 the FASB's 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 ("SEC") approved a rule that delayed the effective date of SFAS No. 123R for public companies to 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.

In June 2005, the FASB issued Staff Position No. FAS 143-1, "Accounting for Electronic Equipment Waste Obligations" ("FSP 143-1"), which provides guidance on the accounting for obligations associated with the European Union ("EU") Directive on Waste Electrical and Electronic Equipment (the "WEEE Directive"). FSP 143-1 provides guidance on how to account for the effects of the WEEE Directive with respect to historical waste associated with products in the market on or before August 13, 2005. FSP 143-1 is required to be applied to the later of the first reporting period ending after June 8, 2005 or the date of the adoption of the WEEE Directive into law by the applicable EU member country. The Company is in the process of registering with the member countries, as appropriate, and is still awaiting guidance from these countries with respect to the compliance costs and obligations for historical waste. The Company will continue to work with each country to obtain guidance and will accrue for compliance costs when they are probable and reasonably estimable. The accruals for these compliance costs may have a material impact on the Company's financial position or results of operations when guidance is issued by each member country.

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."

On August 9, 2005, we acquired Pinnacle Systems, Inc. ("Pinnacle"), a supplier of digital video products to customers ranging from individuals to broadcasters. We paid $72.1 million in cash and issued 6.2 million shares of common stock valued at approximately $362.9 million in exchange for all of the outstanding shares of Pinnacle. We have integrated Pinnacle's broadcast and professional offerings, including the Deko(R) on-air graphics system and the MediaStream(TM) playout server, within our Professional Film, Video and Broadcast segment, and we have formed a new Consumer Video segment that will offer Pinnacle's consumer products, including Pinnacle Studio(TM) and other products.

Make Media. Our Professional Film, Video and Broadcast 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. Our Consumer Video segment develops and markets products that are aimed primarily at the consumer market, and which allow users to create, edit, view and distribute rich media content, including video, photographs and audio using a personal computer and camcorder.

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, as well as by amateurs and home hobbyists. Projects produced by customers using our products have been honored with Oscar(R), Emmy(R), and Grammy(R) awards, in addition to a host of other international awards. 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. Our current quarter acquisition of Pinnacle is discussed above. In August 2005, we acquired Wizoo Sound Design GmbH ("Wizoo"), a Germany-based provider of virtual instruments for music producers and sound designers. We have integrated Wizoo into our Audio segment. 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 allowed us to directly serve our customers in this region. In August 2004, we completed the acquisition of 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. 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 expanded 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 Professional Film, Video and Broadcast segment. The results of operations of Pinnacle, Wizoo, Avid Nordic, M-Audio, and NXN, have been included in our results of operations since the respective date of each acquisition.

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." Our critical accounting policies have not significantly changed since our 2004 Annual Report on Form 10-K, except that the following has been added to our revenue recognition policy due to the acquisition of Pinnacle: Revenue from certain channel partners, who have unlimited return rights and from whom payment is contingent upon the product being sold through to their customers, is recognized when the products are sold through to the customer, instead of being recognized at the time products are shipped to these channel partners. All other critical accounting policies related to Pinnacle have been conformed to those of Avid.

RESULTS OF OPERATIONS

On August 9, 2005, we acquired Pinnacle. As part of our ongoing integration of Pinnacle with Avid, we compared accounting and reporting conventions and, where different, determined the appropriate convention going forward. As a result, we have made the following change to our reporting in the third quarter of 2005:

Prior to the third quarter of 2005 we had classified administrative expenses incurred in Europe both internally and externally as marketing and selling expense because these costs were incurred primarily to support our sales function in Europe. With the Pinnacle acquisition as well as with the acquisitions of M-Audio, NXN and Avid Nordic over the past year, we have increased the overall scope of our operations in Europe to include not only sales but also research and development, manufacturing, customer service and other functions, and our general and administrative infrastructure has increased accordingly. For this reason, we have decided to classify the administrative expenses being incurred in Europe to the general and administrative expense caption in our income statement, as opposed to the marketing and selling expense caption. All comparative periods have been reclassified to conform to the current quarter presentation. The amounts reclassified were $3.5 million for the six months ended June 30, 2005 and $1.6 million and $3.7 million, respectively for the three- and nine-month periods ended September 30, 2004.

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: Professional Film, Video and Broadcast, Consumer 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, these business units represent our reportable segments under SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information".

Our Professional Film, Video and Broadcast 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 video, film 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 consumer videos. Our Consumer Video segment develops and markets products that are aimed primarily at the consumer market, which allow users to create, edit, view and distribute rich media content including video, photographs and audio using a personal computer and camcorder. This segment is comprised of certain product lines acquired in the Pinnacle transaction discussed above. 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 nine-month periods ended September 30, 2005 and 2004 (dollars in thousands):

	Three Months Ended September 30,					
	2005 Net Revenues	% of Consolidated Net revenues	2004 Net Revenues	% of Consolidated Net Revenues	Change	% Change in revenues
Professional Film, Video and Broadcast						
Product Revenues:	$98,307	48.1%	$79,781	54.2%	$18,526	23.2%
Service Revenues:	20,617	10.1%	15,824	10.7%	4,793	30.3%
Total	118,924	58.2%	95,605	64.9%	23,319	24.4%
Audio						
Product Revenues:	66,698	32.6%	51,769	35.1%	14,929	28.8%
Service Revenues:	288	0.2%	-	-	288	100.0%
Total	66,986	32.8%	51,769	35.1%	15,217	29.4%
Consumer Video						
Product Revenues:	18,510	9.0%	-	-	18,510	100.0%
Total	18,510	9.0%	-	-	18,510	100.0%
Total Net Revenues:	$204,420	100.0%	$147,374	100.0%	$57,046	38.7%

	Nine Months Ended September 30,					
	2005 Net Revenues	% of Consolidated Net revenues	2004 Net Revenues	% of Consolidated Net Revenues	Change	% Change in revenues
Professional Film, Video and Broadcast						
Product Revenues:	$261,174	49.2%	$238,784	57.6%	$22,390	9.4%
Service Revenues:	57,219	10.8%	45,231	10.9%	11,988	26.5%
Total	318,393	60.0%	284,015	68.5%	34,378	12.1%
Audio						
Product Revenues:	192,643	36.3%	130,619	31.5%	62,024	47.5%
Service Revenues:	926	0.2%	-	-	926	100.0%
Total	193,569	36.5%	130,619	31.5%	62,950	48.2%
Consumer Video						
Product Revenues:	18,510	3.5%	-	-	18,510	100.0%
Total	18,510	3.5%	-	-	18,510	100.0%

Total Net Revenues:	$530,472	100.0%	$414,634	100.0%	$115,838	27.9%

The acquisition of Pinnacle accounted for $13.1 million of Professional Film, Video and Broadcast product revenues during both the three-month and nine-month periods ended September 30, 2005, all of which was recognized during the period from August 9, 2005 through September 30, 2005. Revenues resulting from the Pinnacle acquisition accounted for 71% and 59%, respectively, of the increases in Professional Film, Video and Broadcast product revenues in the three and nine months ended September 30, 2005. For the three months ended September 30, 2005, the remaining $5.4 million increase in net product revenues in this segment as compared to the same period in 2004 was related to increased unit sales volume of certain key products, especially our Avid Unity MediaNetwork product. This increase in net product revenues was offset in part by 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. For the nine-month period ended September 30, 2005, the increase in net product revenues of $9.3 million in this segment, excluding Pinnacle, as compared to the same period in 2004 was related to increased unit sales volume of our products. This increase in net product revenues was offset by lower average selling prices of our products.

For the Audio segment, 79% and 81%, or $12.1 million and $51.2 million of the increase in net revenues for the three- and nine-month periods ended September 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 nine-month periods ended September 30, 2005 as compared to the same periods in 2004.

The Consumer Video segment was formed in the third quarter of 2005 with the acquisition of Pinnacle; therefore, there is no comparable data for 2004. All of the revenues for the three- and nine-months periods ended September 30, 2005 represent revenue from the Pinnacle consumer business since the acquisition date of August 9, 2005.

For the three- and nine-month periods ended September 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. Professional Film, Video and Broadcast service revenues from the Pinnacle acquisition were $2.5 million for the three- and nine-month periods ended September 30, 2005.

Net revenues derived through indirect channels were 72% and 69% for the three-month periods ended September 30, 2005 and 2004, respectively. Indirect channel revenues were 69% and 72% of net revenues for the nine-month periods ended September 30, 2005 and 2004. The increase in indirect selling from the three-month period ended September 30, 2004 to 2005 was due primarily to the acquisition of Pinnacle, whose consumer products are sold almost exclusively through indirect channels. The increase in direct selling from 2004 to 2005 for the nine-month period 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 the three-month period ended September 30, 2005, international sales (i.e. sales to customers outside the United States) accounted for 56% of our net revenues compared to 50% for the same period in 2004. For the nine-month period ended September 30, 2005, international sales (i.e. sales to customers outside the United States) accounted for 58% of our net revenues compared to 49% for the same period in 2004. International sales increased by $41.2 million or 56% and $102.1 million or 50% for the three- and nine-months periods ended September 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 due both to the acquisition of Pinnacle and 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 and hardware 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 nine-month periods ended September 30, 2005 and 2004 (dollars in thousands):

	Three Months Ended September 30,						
	2005	% of Net Related Revenues	Gross Margin %	2004	% of Net Related Revenues	Gross Margin %	Gross Margin % Change
Product Cost of Revenues	$82,133	44.8%	55.2%	$54,242	41.2%	58.8%	(3.6%)
Service Cost of Revenues	11,587	55.4%	44.6%	8,603	54.4%	45.6%	(1.0%)
Amortization of Technology	3,854	2.1%	-	127	-	-	-
Total	$97,574	47.7%	52.3%	$62,972	42.7%	57.3%	(5.0%)

	Nine Months Ended September 30,						
	2005	% of Net Related Revenues	Gross Margin %	2004	% of Net Related Revenues	Gross Margin %	Gross Margin % Change
Product Cost of Revenues	$204,274	43.2%	56.8%	$152,907	41.4%	58.6%	(1.8%)
Service Cost of Revenues	31,684	54.5%	45.5%	25,036	55.4%	44.6%	0.9%
Amortization of Technology Technology	4,417	0.9%	-	127	-	-	-
Total	$240,375	45.3%	54.7%	$178,070	42.9%	57.1%	(2.4%)

The decreases in the product gross margin percentage for the three- and nine-month periods ended September 30, 2005, as compared to the same period in 2004, reflect primarily the change in product mix due to the acquisitions of Pinnacle and M-Audio, as well as increased price reductions and promotions, which were partially offset by increased volumes and favorable impacts of foreign currency exchange rates on revenues. The service gross margin decreases for both the three- and nine-month periods ended September 30, 2005 as compared to the same periods in 2004 primarily reflects the impact of the Pinnacle acquisition. Amortization of technology included in costs of sales represents the amortization of developed technology assets resulting from the Pinnacle acquisition (since the acquisition date of August 9, 2005) and, to a lesser extent, the M-Audio acquisition.

Research and Development

	Three Months Ended September 30, (dollars in thousands)			
	2005 Expenses	2004 Expenses	Change	% Change
Research and Development:	$29,636	$23,879	$5,757	24.1%
Percentage of Net Revenues:	14.5%	16.2%	(1.7%)	

	Nine Months Ended September 30, (dollars in thousands)			
	2005 Expenses	2004 Expenses	Change	% Change
Research and Development:	$79,225	$69,096	$10,129	14.7%
Percentage of Net Revenues:	14.9%	16.7%	(1.8%)	

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 nine-month periods ended September 30, 2005, the increase in research and development expenditures was primarily due to higher personnel-related costs and facilities costs, particularly related to the acquisitions of Pinnacle in August 2005 and M-Audio in August 2004. Research and development expenses decreased as a percentage of net revenues primarily as a result of the higher revenue base for non-Pinnacle products in 2005 compared to 2004 and to a lesser extent to the acquisition of Pinnacle.

Marketing and Selling

	Three Months Ended September 30, (dollars in thousands)			
	2005 Expenses	2004 Expenses	Change	% Change
Marketing and Selling	$44,601	$32,009	$12,592	39.3%
Percentage of Net Revenues:	21.8%	21.7%	0.1%	

	Nine Months Ended September 30, (dollars in thousands)			
	2005 Expenses	2004 Expenses	Change	% Change
Marketing and Selling	$120,895	$93,354	$27,541	29.5%
Percentage of Net Revenues:	22.8%	22.5%	0.3%	

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 nine-month periods ended September 30, 2005, the increase in marketing and selling expenses was primarily due to higher personnel-related costs, including salaries and related taxes, benefits and commissions, as well as higher facilities costs, all in large part due to the acquisitions of Pinnacle in August 2005 and M-Audio and Avid Nordic in the third quarter of 2004. We also spent more on advertising, trade shows and other marketing programs during both the three- and nine-month periods ended September 30, 2005 as compared to the corresponding periods in 2004.

General and Administrative

	Three Months Ended September 30, (dollars in thousands)			
	2005 Expenses	2004 Expenses	Change	% Change
General and Administrative	$12,188	$9,266	$2,922	31.5%
Percentage of Net Revenues:	6.0%	6.3%	(0.3%)	

	Nine Months Ended September 30, (dollars in thousands)			
	2005 Expenses	2004 Expenses	Change	% Change
General and Administrative	$32,961	$23,500	$9,461	40.3%
Percentage of Net Revenues:	6.2%	5.7%	0.5%	

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 nine-month periods ended September 30, 2005, the increase in general and administrative expenditures was primarily due to higher personnel-related costs, primarily related to our acquisitions of Pinnacle in August 2005 and M-Audio in August 2004. We also incurred higher external legal fees, as well as consulting and temporary help expenses, in both the three- and nine-month periods ended September 30, 2005, as compared to 2004, in part related to the acquisitions over the past year. For the nine-month period ended September 30, 2005, we also incurred higher audit fees as a result of complying with the Sarbanes-Oxley Act of 2002, as compared to the same period in 2004. The impact of the increase in general and administrative expense was reduced by the higher revenue base in 2005.

In-process Research and Development

During the three months ended September 30, 2005, the Company recorded an in-process research and development charge of $32.3 million related to the acquisition of Pinnacle. The allocation of $32.3 million to in-process research and development ("R&D") was determined through management's consideration of a valuation prepared by an independent valuation specialist. This in-process R&D represents product development efforts that were underway at Pinnacle at the time of acquisition, for which technological feasibility had not yet been established. Technological feasibility is established when either of the following criteria is met: 1) the detail program design has been completed, documented, and traced to product specifications and its high-risk development issues have been resolved; or 2) a working model of the product has been finished and determined to be complete and consistent with the product design. Upon the acquisition, Pinnacle did not have a completed product design or working model for the in-process technology and the Company believes that there is no future alternative use for such technology beyond the stated purpose of the specific R&D project; therefore the in-process R&D of $32.3 million was expensed during the three months ended September 30, 2005.

Amortization of Acquisition-Related Intangible Assets

	Three Months Ended September 30, (dollars in thousands)		
	2005	2004	Change
Amortization of Intangible Assets:	$6,398	$1,115	$5,283
Percentage of Net Revenues:	3.1%	0.8%	

	Nine Months Ended September 30, (dollars in thousands)		
	2005	2004	Change
Amortization of Intangible Assets:	$10,146	$2,103	$8,043
Percentage of Net Revenues:	1.9%	0.5%	

Included in amortization of intangible assets for the three- and nine-month periods ended September 30, 2005 is $3.9 million and $4.4 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 with finite lives. These intangible assets are being amortized using the straight-line method, with the exception of developed technology. Developed technology is being amortized on a product-by-product basis over the greater of the amount calculated using the ratio of current quarter revenues to the total of current quarter and anticipated future revenues over the estimated useful lives of two to three years, or the straight-line method over each product's remaining respective useful lives. The increase in amortization expense for the three-month and nine-month periods ended September 30, 2005, respectively, as compared to the same periods in 2004 reflects acquisitions that occurred late in 2004 and during 2005 as discussed below. We would expect amortization of acquisition-related intangibles in the fourth quarter of 2005 to be higher than in the current quarter as the fourth quarter will include the full impact of the Pinnacle acquisition.

On August 9, 2005, we acquired Pinnacle. We have performed a preliminary allocation of the total purchase price of $441 million to the net tangible and intangible assets of Pinnacle based on their fair values as of the consummation of the acquisition. The determination of these fair values included management's consideration of a valuation of Pinnacle's intangible assets prepared by an independent valuation specialist. As part of the purchase

accounting allocation, we recorded $90.8 million of identifiable intangible assets, consisting of completed technologies, customer relationships and trade names.

In January 2004, we acquired NXN Software GmbH, 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 trade name.

In August 2004, we acquired M-Audio, 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, 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 September 30, (dollars in thousands)		
	2005	2004	Change
Other Income and Expense, Net:	$1,719	$651	$1,068
Percentage of Net Revenues:	0.8%	0.4%	0.4%

	Nine Months Ended September 30, (dollars in thousands)		
	2005	2004	Change
Other Income and Expense, Net:	$3,735	$686	$3,049
Percentage of Net Revenues:	0.7%	0.2%	0.5%

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- and nine-month periods ended September 30, 2005 was primarily due to increased interest income earned in 2005 on higher average cash and marketable securities balances. The nine-month period ended September 30, 2004 included a charge of $1.1 million related to the settlement of a lawsuit. The fact that there was no similar item in 2005 also contributed to the increase in other income and expense, net for the nine-month period ended September 30, 2005, as compared to 2004.

Provision for Income Taxes, Net

	Three Months Ended September 30,		
	2005	2004	Change
Provision for income taxes, net	$2,966	($63)	$3,029
As a percentage of net revenues	1.5%	0.0%	1.5%

	Nine Months Ended September 30,		
	2005	2004	Change
Provision for income taxes, net	$5,080	$137	$4,943
As a percentage of net revenues	1.0%	0.0%	1.0%

Our effective tax rate was (20.1)% and (0.3)% for the three-month periods ended September 30, 2005 and 2004, respectively. The effective tax rate for the nine month periods ended September 30, 2005 and 2004, respectively, was 24.6% and 0.3%. The net tax provision for the nine month period ended September 30, 2005 reflected a tax provision of $4.6 million, partially offset by $0.7 million of a tax benefit related to the amortization of non-deductible acquisition-related intangible assets, and a non-cash deferred tax charge of $1.2 million related to utilization of the acquired Pinnacle net operating loss carryforward. The net tax provision for the nine-month period ended September 30, 2004 reflected a tax provision of $1.6 million, partially offset by the reversal of a $1.2 million tax reserve resulting from the expiration of the statute of limitations on that reserve item and an adjustment for refunds of approximately $0.3 million of taxes previously paid in Canada. Other than these adjustments, the tax provisions for the nine month periods ended September 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 September 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, acquisition related adjustments, in-process research & development, and other non-recurring items, our effective tax rate would have been 38% and 31% for the three month periods ended September 30, 2005 and 2004. The three months ended September 30, 2005 is higher due to Pinnacle related year to date adjustments. Excluding the impact of the valuation allowance, acquisition related adjustments, in-process research & development, and other non-recurring items, our effective tax rate would have been 29% and 31% for the nine month periods ended September 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 in recent years through cash flows from operations as well as from stock option exercises from our employee stock plans. As of September 30, 2005, our principal sources of liquidity included cash, cash equivalents and marketable securities totaling $228.6 million.

With respect to cash flow, net cash provided by operating activities was $39.3 million for the nine months ended September 30, 2005 compared to $57.1 million for the same period in 2004. The decrease from 2004 to 2005 relates primarily to greater uses of cash for working capital purposes during 2005. During the nine months ended September 30, 2005, net cash provided by operating activities primarily reflects net income adjusted for depreciation and amortization, the write-off of in-process research and development, as well as an increase in deferred revenues, partially offset by an increase in accounts receivable and inventories and a decrease in accrued expenses. During the nine months ended September 30, 2004, net cash provided by operating activities primarily reflects net income adjusted for depreciation and amortization as well as increases in accounts receivable, accounts payable and deferred revenue.

At September 30, 2005 and December 31, 2004, we held inventory in the amounts of $93.2 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 the acquisition of Pinnacle, in-transit inventory from Audio contract manufacturers resulting from a switch to a lower-cost shipping method (specifically, using more ocean freight, rather than air freight), as well as increased sales demonstration inventory in support of our broadcast business and a build-up of finished goods inventory due to anticipated sales of our recently announced Avid Unity ISIS product. 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. We source inventory products and components pursuant to purchase orders placed from time to time. As of September 30, 2005, such purchase obligations resulting from the acquisition of Pinnacle totaled approximately $17.4 million.

Accounts receivable increased by $30.2 million to $127.7 million at September 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. The increase from December 31, 2004 was primarily attributable to the acquisition of Pinnacle during the three-months ended September 30, 2005. Days sales outstanding in accounts receivable increased from 50 days at December 31, 2004 to 56 days at September 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 2004 quarter than the September 2005 quarter. These sales are typically paid prior to recognition and therefore lower our days sales outstanding in the period when revenue is recognized.

Net cash flow used in investing activities was $14.3 million for the nine months ended September 30, 2005 compared to $104.3 million for the same period in 2004. During the nine-month period ended September 30, 2005 we acquired Pinnacle for stock valued at approximately $362.9 million plus cash of $72.1 million, and paid related transaction fees of approximately $6.0 million. As Pinnacle's cash balance at the acquisition date was $103.0 million, this acquisition resulted in a net cash increase of $24.9 million. We also paid cash of (euro) 4 million ($4.9 million) plus transaction costs of $0.2 million for Wizoo. During the nine-month period ended September 30, 2004, we expended cash of $134.2 million for the purchases of NXN, M-Audio and Avid Nordic AB, net of cash acquired. During this 2004 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 purchased $12.9 million of property and equipment during the nine months ended September 30, 2005 compared to $9.8 million in the same period of 2004. Purchases of property and equipment in both 2005 and 2004 consisted primarily of computer hardware and software to support research and development activities and our information systems.

During the nine months ended September 30, 2005 and 2004, we generated cash of $10.9 million and $12.7 million, respectively, from financing activities, primarily 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 September 30, 2005 we have future cash obligations of approximately $14.7 million under leases for which we have vacated the underlying facilities. We have an associated restructuring accrual of $4.3 million at September 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. In connection with the Pinnacle acquisition, as of September 30, 2005, we have a restructuring accrual of $4.1 million and $3.7 million related to severance and lease obligations, respectively. The severance payments will be made over the next twelve months and the lease payments will be made over the remaining terms of the leases, which have varying expiration dates thru 2010. All payments related to restructuring will be funded through working capital.

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 nine months ended September 30, 2005 (in thousands):

	Facilities Related	Employee Related	Total
Accrual balance at December 31, 2004	$3,534	-	$3,534
Pinnacle acquisition-related liabilities	3,739	9,858	13,597
Revised estimate of lease obligations	1,997	-	1,997
Cash payments, net of sublease income	(1,240)	(5,793)	(7,033)
Accrual balance at September 30, 2005	$8,030	$4,065	$12,095

Our cash requirements vary depending upon factors such as our planned growth, capital expenditures, the possible acquisitions 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 the FASB's 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., for us, 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 SEC approved a rule that delayed the effective date of SFAS No. 123R for public companies to 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.

In June 2005, the FASB issued Staff Position No. FAS 143-1, "Accounting for Electronic Equipment Waste Obligations" ("FSP 143-1"), which provides guidance on the accounting for obligations associated with the European Union ("EU") Directive on Waste Electrical and Electronic Equipment (the "WEEE Directive"). FSP 143-1 provides guidance on how to account for the effects of the WEEE Directive with respect to historical waste associated with products in the market on or before August 13, 2005. FSP 143-1 is required to be applied to the later of the first reporting period ending after June 8, 2005 or the date of the adoption of the WEEE Directive into law by the applicable EU member country. We are in the process of registering with the member countries, as appropriate, and are still awaiting guidance from these countries with respect to the compliance costs and obligations for historical waste. We will continue to work with each country to obtain guidance and will accrue for compliance costs when they are probable and reasonably estimable. The accruals for these compliance costs may have a material impact on our financial position or results of operations when guidance is issued by each member country.

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 recently completed merger with Pinnacle Systems, Inc.

As a result of our recent merger with Pinnacle Systems, Inc., ("Pinnacle") we face challenges in several areas that could have an adverse effect on our business. In addition, some of the assumptions that we have relied upon, such as the achievement of operating synergies and revenue growth, may not be realized. As a result of these and other factors, the merger may not result in a financial condition superior to that which we would have achieved on a stand-alone basis.

Our integration of Pinnacle will be a time-consuming and expensive process which may disrupt our operations if it is not completed in a timely and efficient manner. If this integration effort is not successful, our results of operations could be harmed, employee morale could decline, key employees could leave, and customers could cancel existing orders or choose not to place new ones. With the completion of the integration, the combined company must operate as a unified organization utilizing common information and communication systems, operating procedures, financial controls, and human resources practices. We may encounter difficulties, costs, and delays involved in integrating the Pinnacle business, including:

- failure to successfully manage relationships with customers and with important third parties;
- failure of customers to continue using the products and services of the combined company;
- failure to properly integrate the professional film, video and broadcast businesses of Avid and Pinnacle;
- challenges encountered in managing larger, more geographically dispersed operations;
- difficulties in successfully integrating the management teams and employees of Avid and Pinnacle;
- diversion of the attention of management from other ongoing business concerns;
- potential incompatibility of technologies and systems;
- potential impairment charges to write-down the carrying amount of goodwill and other intangible assets; and
- potential incompatibility of business cultures.

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.

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

We regularly introduce new products, as well as upgrades and enhancements to existing products. We will need to continue to focus marketing and sales efforts on educating potential customers, as well as our resellers and distributors, about the uses and benefits of these products. The future success of certain of our video 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. Other risks involved with offering new products in general include, 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 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.

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.

We will face challenges associated with sales of video and audio products to non-professional consumers.

As a result of our recent acquisition of Pinnacle, we expect a material portion of our future revenue to come from sales to consumers of home video editing and viewing products. In addition, M-Audio is expanding its sales channel to include sales of its audio products through the consumer channel. The market for these consumer video and audio products is highly competitive, and we expect to face price-based competition from competitors selling similar products. Although we acquired experienced personnel through our acquisitions of M-Audio and Pinnacle, Avid's prior experience in the consumer market is limited. If we are not successful marketing to non-professional consumers, our operating results could suffer. Furthermore, sales of consumer electronics and software typically increase in the second half of the year, reaching their peak during the year-end holiday season. As a result, to the extent we increase sales of our video and audio products through consumer channels, we expect to experience greater seasonality in our revenues.

Another challenge that is particularly acute with respect to the sale of consumer software is software piracy. The unauthorized use of our proprietary technology is costly and efforts to restrict such unauthorized use are time-consuming. We are unable to accurately measure the extent to which piracy of our software exists, but we expect it to be a persistent problem.

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.

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

The business segments in which we operate 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. In the event such companies discontinue their alliances with us, we could experience a negative impact on our business.

Potential future acquisitions could be difficult to integrate, divert the attention of key personnel, disrupt our business, dilute stockholder value and impair our financial results.

As part of our business strategy, we periodically acquire companies, technologies and products that we believe can improve our ability to compete in our core markets or allow us to enter new markets. For example, in August 2005, we acquired Pinnacle Systems, Inc., and in August 2004, we acquired Midiman, Inc. (d/b/a M-Audio). 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 potential dilution to existing stockholders 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, if so required;
- the impairment of relationships with customers or suppliers;
- the risks associated with contingent payments and earn-outs;
- the possibility of incurring debt and amortization expenses, as well as impairment charges, 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.

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.

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 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 activities. We generally own the software developed by these contractors. We also rely on subcontractors for most of our manufacturing activities.

Our strategy to rely on independent firms and contractors involves a number of significant risks, including loss of control over the manufacturing process, potential absence of adequate manufacturing capacity, potential delays in lead times and reduced control over delivery schedules, manufacturing yields, quality and cost. Furthermore, 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 these products or components, our supply and our ability to continue selling and servicing products that use these components could be imperiled. Similarly, if any of our sole source vendors should encounter technical, operating or financial difficulties, our supply of these products or components would be threatened. 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 and software 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 or software, and are not able to increase the price of our products to offset the 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 could adversely affect 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 our broadcast and some of our audio 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 rate 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 difficulties in protecting our intellectual property.

New environmental regulations could negatively impact our future operating results.

The European Union ("EU") has finalized the Waste Electrical and Electronic Equipment ("WEEE") Directive, which makes producers, importers and/or distributors of specified electronic products, including some of our products, responsible for the collection, recycling, treatment, and disposal of covered products. The WEEE Directive became effective in August 2005, although to date not all EU countries have adopted rules implementing the WEEE Directive. The EU has also passed the Restriction of Hazardous Substances ("RoHS") Directive, which places restrictions on lead and certain other substances contained in specified electronic products, including some of our products, sold in the EU 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. Furthermore, failure to comply with the directives could result in substantial penalties and fines.

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, especially as a result of our recent acquisition of Pinnacle. 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 and sell our products may be harmed.

We sell many of our video products and services, and substantially all of our Audio and Consumer Video products and services, indirectly through resellers and distributors. In our Audio and Consumer Video segments, 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 Profession Film, Video and Broadcast 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 broadcast 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 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 Professional Film, Video and Broadcast 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 and Consumer Video 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 or Consumer Video segment products were to exceed estimated levels, our revenues and operating results could be adversely impacted.

With respect to our Consumer Video segment, we have expanded our distribution network to include several consumer channels, including large distributors of products to computer software and hardware retailers, which in turn sell products to end users. We also sell our Consumer Video products directly to certain retailers. Our Consumer Video product distribution network exposes us to the following risks, some of which are out of our control:

- we are obligated to provide price protection to our retailers and distributors and, while the agreements limit the conditions under which products can be returned to us, we may be faced with product returns or price protection obligations;
- retailers or distributors may not continue to stock and sell our consumer products; and
- retailers and distributors often carry competing products.

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 SEC, which promulgate and interpret appropriate accounting regulations. Changes from current accounting regulations may have a significant effect on our reported financial results. Furthermore, changes in the rules regarding accounting for stock-based compensation, expected to take effect on January 1, 2006, will result in higher operating expenses and lower earnings per share.

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. However, 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 such unauthorized use, including piracy, of our software exists. We expect software piracy to continue 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 may 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.

Regulations could be enacted that restrict our Internet initiatives.

Federal, state, and international authorities may adopt new laws or regulations governing the Internet, including laws or regulations covering issues such as privacy, distribution, and content. For example, the EU has issued several directives regarding privacy and data protection, including the Directive on Data Protection and the Directive on Privacy and Electronic

Communications. The enactment of legislation implementing such directives by EUmember countries is ongoing. The enactment of this and similar legislation or regulations could curb our Internet sales and other initiatives, require changes in our sales and marketing practices, and place additional financial burdens on our business.

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 a violation of other local laws. 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 affected.

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 various rules and regulations promulgated by the SEC and the National Association of Securities Dealers in recent years have increased the scope, complexity and cost of our corporate governance, reporting and disclosure practices. These laws, rules and regulations also divert attention from business operations, increase the cost of obtaining director and officer liability insurance, and may 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, many of which are beyond our control. These factors include:

- changes in our quarterly operating results;
- shortfalls in our revenues or earnings compared to securities analysts' expectations;
- changes in analysts' recommendations or projections;
- fluctuations in investors' perceptions of us or our competitors;
- shifts in the markets for our products;
- development and marketing of products by our competitors;
- changes in our relationships with suppliers, distributors, resellers, system integrators or customers;
- announcements of major acquisitions;
- a shift in financial markets; and
- global macroeconomic conditions.

Furthermore, the market prices of equity securities of high technology companies have generally demonstrated volatility in recent years, 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 September 30, 2005, we had $57.7 million of forward-exchange contracts outstanding, denominated in the euro, British pound, 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 September 30, 2005, net gains resulting from forward-exchange contracts of $58,000 were included in results of operations, offset by net transaction and remeasurement losses on the related asset and liabilities of $0.9 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 September 30, 2005, we held $228.6 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

Evaluation of Disclosure 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 September 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 September 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.

Changes in Internal Control over Financial Reporting

Management considers the acquisition of Pinnacle Systems, Inc. on August 9, 2005 to be material to the results of operations, financial position and cash flows of the Company from the date of acquisition through September 30, 2005 and considers the internal controls and procedures of Pinnacle to have a material effect on our internal control over financial reporting. We are currently executing our post-acquisition integration plans, which include merging accounting information systems and ongoing internal control evaluation. We intend to extend our Sarbanes-Oxley Act Section 404 compliance program to include Pinnacle in fiscal 2006.

Except as set forth above, no change in our internal control over financial reporting occurred during the fiscal quarter ended September 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. On August 11, 2005, the KFTC issued a decision in favor of Avid regarding the complaint filed by Neat. However, Neat filed a second complaint with the KFTC on October 25, 2005. In addition, on October 14, 2005, Neat filed a civil lawsuit in South Korea against Avid Technology Worldwide, Inc. alleging, unfair trade practices. In the civil action, Neat is seeking approximately $1,700,000 in damages, plus interest and attorneys fees. We believe that Neat's claims are without merit and we intend to defend ourselves vigorously in these actions. Because we cannot predict the outcome of these actions at this time, no costs have been accrued for any possible loss contingency.

In September 2003, Pinnacle Systems, Inc., which we recently acquired and is now a wholly-owned subsidiary, was named as a defendant in a civil lawsuit filed in the Superior Court of California, Alameda County. The complaint was filed by YouCre8, a/k/a DVDCre8, Inc., a software company whose software was distributed by Dazzle Multimedia, Inc. ("Dazzle"). The complaint alleges that in connection with Pinnacle's acquisition of certain assets of Dazzle, Pinnacle tortiously interfered with DVDCre8's relationship with Dazzle and others, engaged in acts to restrain competition in the DVD software market, and distributed false and misleading statements which caused harm to DVDCre8. Dazzle and its parent company, SCM Microsystems, Inc. ("SCM"), were also named as defendants in this matter. The complaint seeks unspecified damages and injunctive relief. Pursuant to the Asset Purchase Agreement among SCM, Dazzle and Pinnacle, Pinnacle is seeking indemnification from SCM and Dazzle for all or part of the damages and the expenses incurred to defend these claims. SCM and Dazzle, in turn, are seeking indemnification from Pinnacle for all or part of the damages and expenses incurred by them to defend these claims. We believe the complaint is without merit and intend to vigorously defend against it. However, an adverse resolution of this litigation could have a material adverse effect on our consolidated financial position in the period in which the litigation is resolved. Amounts accrued related to this litigation as part of the Pinnacle purchase price allocation during the three months ended September 30, 2005 are considered immaterial to our consolidated financial statements.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We held our Annual Meeting of Stockholders on July 27, 2005. At the meeting, Elizabeth M. Daley and John V. Guttag were reelected as Class III Directors. The vote with respect to each nominee is set forth below:

	Total Vote For Each Director	Total Vote Withheld From Each Director
Ms. Daley	30,426,130	1,218,875
Mr. Guttag	29,350,177	2,294,828

Additional directors whose terms of office continued after the meeting are George H. Billings, Nancy Hawthorne, David A. Krall and Pamela F. Lenehan.

The stockholders also approved an amendment to our Third Amended and Restated Certificate of Incorporation, as amended, to increase the number of authorized shares of common stock from 50,000,000 to 100,000,000 by a vote of 28,123,323 shares for, 745,930 shares against, 19,680 shares abstaining, and 2,756,072 non-votes.

In addition, the stockholders approved our 2005 Stock Incentive Plan by a vote of 21,096,754 shares for, 7,712,465 shares against, 79,714 shares abstaining, and 2,756,072 non-votes.

The stockholders also ratified the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the year ending December 31, 2005 by a vote of 30,127,950 shares for, 1,510,392 shares against, and 6,663 shares abstaining.

Finally, the stockholders did not approve adjournments or postponements of the annual meeting, if necessary, to permit further solicitation of proxies if there were not sufficient votes at the time of the meeting to approve the amendment to our Third Amended and Restated Certificate of Incorporation. The vote for this matter was 15,297,391 shares for, 15,933,314 shares against, and 414,300 shares abstaining.

ITEM 6. EXHIBITS

*3.1 Third Amended and Restated Certificate of Incorporation, as amended.

*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

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* 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: November 14, 2005 By: /s/ Paul J. Milbury

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

EXHIBIT INDEX

Exhibit No.	Description
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* Documents filed herewith

THIRD AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION

OF

AVID TECHNOLOGY, INC.
a Delaware corporation

Incorporated September 4, 1987

Pursuant to Sections 242 and 245 of the
General Corporation Law of the State of Delaware

The undersigned, Curt A. Rawley and Jonathan Cook are President and Secretary, respectively, of Avid Technology, Inc., a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"). The Corporation's Certificate of Incorporation was initially filed in the Office of the Secretary of State of the State of Delaware on September 4, 1987. Certificate of Amendment to the Certificate of Incorporation were filed with the Office of the Secretary of State of the State of Delaware on August 25, 1988, May 19, 1989, January 22, 1990, February 22, 1991, May 17, 1991 and May 21, 1991. Restated Certificates of Incorporation were filed with the Office of the Secretary of State of the State of Delaware on September 23, 1992, and February 2, 1993. The undersigned, as President and Secretary of the Corporation, do hereby certify that (a) the Board of Directors duly adopted a resolution pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware proposing that this Third Amended Restated Certificate of Incorporation (the "Restated Certificate") be approved and declaring the adoption of such Restated Certificate to be advisable; and (b) the stockholders of the Corporation duly approved this Restated Certificate by written consent in accordance with Sections 228 and 242 of the General Corporation Law of the State of Delaware, and written notice of such consent has been given to all stockholders who have not consented in writing to this Restated Certificate.

FIRST: The name of the Corporation is: Avid Technology, Inc.

SECOND: The address of the Corporation's registered office in the State of Delaware is The Corporation Trust Center, 1209 Orange Street, in the city of Wilmington, County of New Castle. The name of the registered agent of the Corporation at such address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is 31,000,000 shares, consisting of (i) 30,000,000 shares of Common Stock, $.01 par value per share ("Common Stock"), and (ii) 1,000,000 shares of Preferred Stock, $.01 par value per share ("Preferred Stock").

The following is a statement of the designations and the powers, privileges and rights, and the qualifications, limitations or restrictions thereof in respect of each class of capital stock of the Corporation.

A. COMMON STOCK.

1. General. The voting, dividend and liquidation rights of the holders of the Common Stock are subject to and qualified by the rights of the holders of the Preferred Stock of any series as may be designated by the Board of Directors upon any issuance of the Preferred Stock of any series.

2. Voting. The holders of the Common Stock are entitles to one vote for each share held at all meeting of stockholders (and written actions in lieu of meetings). There shall be no cumulative voting.

The number of authorized shares of Common Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the stock of the Corporation entitled to vote, irrespective of the provisions of Section 242(b) (2) of the General Corporation Law of Delaware.

3. Dividends. Dividends may be declared and paid on the Common Stock from funds lawfully available therefore as and when determined by the Board of

Directors and subject to any preferential dividend rights of any then outstanding Preferred Stock.

4. Liquidation. Upon the dissolution or liquidation of the Corporation, whether voluntary or involuntary, holders of Common Stock will be entitled to receive all assets of the Corporation available for distribution to its stockholders, subject to any preferential rights of any then outstanding Preferred Stock.

B. PREFERRED STOCK.

Preferred Stock may be issued from time to time in one or more series, each of such series to have such terms as stated or expressed herein and in the resolution or resolutions providing for the issue of such series adopted by the Board of Directors of the Corporation as hereinafter provided. Any shares or Preferred Stock which may be redeemed, purchased or acquired by the Corporation may be reissued except as otherwise provided by law. Different series of Preferred Stock shall not be construed to constitute different classes of shares for the purposes of voting by classes unless expressly provided.

Authority is hereby expressly granted to the Board of Directors from time to time to issue the Preferred Stock in one or more series, and in connection with the creation of any such series, by resolution or resolutions providing for the issue of the shares thereof, to determine and fix such voting powers, full or limited, or no voting powers, and such designations, preferences and relative participating, optional or other special rights, and qualifications, limitations or restrictions thereof, including without limitation thereof, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be stated and expressed in such resolutions, all to the full extent now or hereafter permitted by the General Corporation Law of Delaware. Without limiting the generality of the foregoing, the resolutions providing for issuance of any series of Preferred Stock may provide that such series shall be superior or rank equally or be junior to the Preferred Stock of any other series to the extent permitted by law. Except as otherwise provided in this Certificate of Incorporation, no vote of the holders of the Preferred Stock or Common Stock shall be a prerequisite to the designation or issuance of any shares of the Preferred Stock authorized by and complying with the conditions of this Certificate of Incorporation, the right to have such vote being expressly waived by all present and future holders of the capital stock of the Corporation.

FIFTH: The Corporation is to have perpetual existence.

SIXTH: To the maximum extent permitted by Section 102 (b) (7) of the General Corporation Law of Delaware, a director of this Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.

SEVENTH: In furtherance and not in limitation of the powers conferred by statute, the board of directors is expressly authorized:

A. To make, alter or repeal the by-laws of the Corporation.

B. To authorize and cause to be executed mortgages and liens upon the real and personal property of the Corporation.

C. To set apart out of any of the funds of the Corporation available for dividends a reserve or reserves for any proper purpose and to abolish any such reserve in the manner in which it was created.

D. By a majority of the whole board, to designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. The by-laws may provide that in the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of such any agent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors, or in the by-laws of the Corporation, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the Restated Certificate, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease, or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the corporation or a revocation of a dissolution, or amending the by-laws of the Corporation; and, unless the resolution or by-laws expressly so provide, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock.

E. When and as authorized by the stockholders in accordance with statute, to sell, lease or exchange all or substantially all of the property and assets of the Corporation, including its goodwill and its corporate franchises, upon such terms and conditions and for such consideration, which may consist in whole or in part of money or property, including shares of stock in, and/or other securities of, any other corporation or corporations, as its Board of Directors shall deem expedient and for the best interests of the Corporation.

EIGHTH: Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof, or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the Delaware code, order a meeting of the creditors or class of creditors , and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise as consequences of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or all the stockholders or class of stockholders of this Corporation, as the case may be, and also on this Corporation.

NINTH: Meetings of the stockholders may be held within or without the State of Delaware, as the by-laws may provide. The books of the Corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the by-laws of the Corporation. Elections of directors need not be by written ballot unless the by-laws of the Corporation shall so provide.

TENTH: Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation; no action by the stockholders may be taken by a written action in lieu of a meeting.

ELEVENTH:

A. Actions, Suits and Proceedings Other than by or in the Right of the Corporation. The Corporation shall indemnify each person who was or is a party or is a threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), by reason of the fact that he is or was, or has agreed to become, a director or officer of the Corporation, or is or was serving, or has agreed to serve, at the request of the Corporation, as a director, officer or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan) (all such persons being referred to hereafter as an "Indemnitee"), or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such action, suite or proceeding and any appeal therefrom, if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea or nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which be reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful. Notwithstanding anything to the contrary in this Article, except as set forth in Paragraph F below, the Corporation shall not indemnify an Indemnitee seeking indemnification in connection with a proceeding (or part thereof) initiated by the Indemnitee unless the initiation thereof was approved by the Board of Directors of the Corporation.

B. Actions or Suits by or in the Right of the Corporation. The Corporation shall indemnify any Indemnitee who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was, or has agreed to become, a director or officer of the Corporation, or is or was serving, or has agreed to serve, at the request of the Corporation, as a director, officer or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan), or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorneys' fees) and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such action, suit or proceeding and any appeal therefrom, if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of such liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses (including attorneys' fees) which the Court of Chancery of Delaware or such other court shall deem proper.

C. Indemnification for Expenses of Successful Party. Notwithstanding the other provisions of this Article, to the extent that an Indemnitee has been successful, on the merits or otherwise, in defense of any action, suit or proceeding referred to in Paragraphs A and B of this Article, or in defense of any claim, issue or matter therein, or on appeal from any such action, suit or proceeding, he shall be indemnified against all expenses (including attorneys' fees) actually and reasonable incurred by him or on his behalf in connection therewith. Without limiting the foregoing, if any action, suit or proceeding is disposed of, on the merits or otherwise (including a disposition without prejudice), without (i) the disposition being adverse to the Indemnitee, (ii) an adjudication that the Indemnitee was liable to the Corporation, (iii) a plea of guilty or nolo contendere by the Indemnitee, (iv) an adjudication that the Indemnitee did not act in good faith and in a manner he reasonably believe to be in or not opposed to the best interests of the Corporation, and (v) with respect to any criminal proceeding, an adjudication that the Indemnitee had reasonable cause to believe his conduct was unlawful, the Indemnitee shall be considered for the purposes hereof to have been wholly successful with respect thereto.

D. Notification and Defense of Claim. As a condition precedent to his right to be indemnified, the Indemnitee must notify the Corporation in writing as soon as practicable of any action, suit, proceeding or investigation involving him for which indemnity will or could be sought. With respect to any action, suit, proceeding or invesitgation of which the Corporation is so notified, the Corporation will be entitled to participate therein at its own expense and/or to assume the defense thereof at its own expense, with legal counsel reasonably acceptable to the Indemnitee. After notice from the Corporation to the Indemnitee of its election so to assume such defense, the Corporation shall not be liable to the Indemnitee for any legal or other expenses subsequently incurred by the Indemnitee in connection with such claim, other than as provided below in this Paragraph D. The Indemnitee shall have the right to employ his own counsel in connection with such claim, but the fees and expenses of such counsel incurred after notice from the Corporation of its assumption of the defense thereof shall be at the expense of the Indemnitee unless (i) the employment of counsel by the Indemnitee has been authorized by the Corporation, (ii) counsel to the Indemnitee shall have reasonably concluded that there may be a conflict of interest or position on any significant issue between the Corporation and the Indemnitee in the conduct of the defense of such action or (iii) the Corporation shall not in fact have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of counsel for the Indemnitee shall be at the expense of the Corporation, except as otherwise expressly provided by this Article. The Corporation shall not be entitled, without the consent of the Indemnitee, to assume the defense of any claim brought by or in the right of the Corporation or as to which counsel for the Indemnitee shall have reasonably made the conclusion provided for in clause (ii) above.

E. Advance of Expenses. Subject to the provisions of Paragraph F below, in the event that the Corporation does not assume the defense pursuant to Paragraph D of this Article of any action, suit, proceeding or investigation of which the Corporation receives notice under the Article, any expenses (including attorneys' fees) incurred by an Indemnitee in defending a civil or criminal action, suit, proceeding or investigation or any appeal therefrom shall be paid by the Corporation in advance of the final disposition of such matter, provided, however, that the payment of such expenses, incurred by an Indemnitee in advance of the final disposition of such matter shall be made only upon receipt of an undertaking by or on behalf of the Indemnitee to repay all amounts so advanced in the event that it shall ultimately be determined that the Indemnitee is not entitled to be indemnified by the Corporation as authorized in this Article. Such undertaking may be accepted without reference to the financial ability of such person to make such repayment.

F. Procedure for Indemnification. In order to obtain indemnification or advancement of expenses pursuant to Paragraph A, B, C or E of this Article, the Indemnitee shall submit to the Corporation a written request, including in such request documentation and information as is reasonably available to the Indemnitee and is reasonably necessary to determine whether and to what extent the Indemnitee is entitled to indemnification or advancement of expenses. Any such indemnification or advancement of expenses shall be made promptly, and in any event within 60 days after receipt by the Corporation of the written request of the Indemnitee, unless with respect to requests under Paragraph A, B, or E the Corporation determines within such 60-day period that the Indemnitee did not meet the applicable standard of conduct set forth in Paragraph A or B, as the case may be. Such determination shall be made in each instance by (i) a majority vote of a quorum of the directors of the Corporation consisting of persons who are not at that time parties to the action, suit or proceeding in question ("disinterested directors"), (ii) if no such quorum is obtainable, a majority vote of a committee of two or more disinterested directors, (iii) a majority vote of a quorum of the outstanding shares of stock of all classes entitled to vote for directors, voting as a single class, which quorum shall consist of stockholders who are not at the time parties to the action, suit or proceeding in question, (iv) independent legal counsel (who may be regular legal counsel to the Corporation), or (v) a court of competent jurisdiction.

G. Remedies. The right to indemnification or advances as granted by this Article shall be enforceable by the Indemnitee in any court of competent jurisdiction if the Corporation denies such request, in whole or in part, or if no disposition thereof is made within the 60-day period referred to above in Paragraph F. Unless otherwise provided by law, the burden of proving that the Indemnitee is not entitled to indemnification or advancement of expenses under this Article shall be on the Corporation. Neither the failure of the Corporation to have made a determination prior to the commencement of such action that indemnification is proper in the circumstances because the Indemnitee has met the applicable standard of conduct, nor an actual determination by the Corporation pursuance to Paragraph F that the Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the Indemnitee has not met the applicable standard of conduct. The Indemnitee's expenses (including attorneys' fees) incurred in connection with successfully establishing his right to indemnification, in whole or in part, in any such proceeding shall also be indemnified by the Corporation.

H. Subsequent Amendment. No amendment, termination or repeal of this Article or of the relevant provisions of the General Corporation Law of Delaware or any other applicable laws shall affect or diminish in any way the rights of any Indemnitee to indemnification under the provisions hereof with respect to any action, suit, proceeding or investigation arising out of or relating to any actions, transactions or facts occurring prior to the final adoption of such amendment, termination or repeal.

I. Other Rights. The indemnification and advancement of expenses provided by the Article shall not be deemed exclusive of any other rights to which an Indemnitee seeking indemnification or advancement of expenses may be entitled under any law (common or statutory), agreement or vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in any other capacity while holding office for the Corporation, and shall continue as to an Indemnitee who has ceased to be a director or officer, and shall inure to the benefit of the estate, heirs, executors and administrators of the Indemnitee. Nothing contained in this Article shall be deemed to prohibit, and the Corporation is specifically authorized to enter into, agreements with officers and directors providing indemnification rights and procedures different from those set forth in this Article. In addition, the Corporation may, to the extent authorized from time to time by its Board of Directors, grant indemnification rights to other employees or agents of the Corporation or other persons serving the Corporation and such rights may be equivalent to, or greater or less than, those set forth in this Article.

J. Partial Indemnification. If an Indemnitee is entitled under any provision of this Article to indemnification by the Corporation for some or a portion of the expenses (including attorneys' fees), judgments, fines or amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with any action, suit, proceeding or investigation and any appeal therefrom but not, however, for the total amount thereof, the Corporation shall nevertheless indemnify the Indemnitee for the portion of such expenses (including attorneys' fees), judgments, fines or amounts paid in settlement to which the Indemnitee is entitled.

K. Insurance. The Corporation may purchase and maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan) against any expense, liability or loss incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the General Corporation Law of Delaware.

L. Merger or Consolidation. If the Corporation is merged into or consolidated with another corporation and the Corporation is not the surviving corporation, the surviving corporation shall assume the obligations of the Corporation under this Article with respect to any action, suit, proceeding or investigation arising out of or relating to any actions, transactions or facts occurring prior to the date of such merger or consolidation.

M. Savings Clause. If this Article or any portion hereof shall be invalidated on any ground by court of competent jurisdiction, then the Corporation shall nevertheless indemnify each Indemnitee as to any expenses (including attorneys' fees), judgments, fines and amounts paid in settlement in connection with any action, suit, proceeding or investigation, whether civil, criminal or administrative, including an action by or in the right of the Corporation, to the fullest extent permitted by any applicable portion of this Article that shall not have been invalidated and to the fullest extent permitted by applicable law.

N. Definitions. Terms used herein and defined in Section 145(h) and Section 145(i) of the General Corporation Law of Delaware shall have the respective meanings assigned to such terms in such Section 145(h) and Section 145(i).

O. Subsequent Legislation. If the General Corporation Law of Delaware is amended after adoption of the Article to expand further the indemnification permitted to Indemnitees, then the Corporation shall indemnify such person to the fullest extent permitted by the General Corporation Law of Delaware, as so amended.

TWELFTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this certificate of incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

EXECUTED at Tewksbury, Massachusetts, as of the 18th day of March, 1993.

/S/ Curt A. Rawley

Curt A. Rawley
President

ATTEST:

/S/ Jonathan Cook
- -----------------
Jonathan Cook
Secretary

CERTIFICATE OF AMENDMENT

OF THE

THIRD AMENDED AND RESTATED
CERTIFICATION OF INCORPORATION

OF

AVID TECHNOLOGY, INC.

Pursuant to Sections 242 of the
General Corporation Law of the State of Delaware

AVID TECHNOLOGY, INC. (hereinafter referred to as the "Corporation"), organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify as follows:

That at a meeting of the Board of Directors of the Corporation, the Board of Directors duly adopted resolutions pursuant to Section 242 of the General Corporation Law of the State of Delaware, setting forth an amendment to the Third Amended and Restated Certificate of Incorporation of the Corporation and declaring said amendment to be advisable. The stockholders of the Corporation duly approved said proposed amendment at a Special Meeting of the Stockholders conducted pursuant to notice duly given in accordance with Sections 211 and 242 of the General Corporation Law of the State of Delaware. The resolution setting forth the amendment is as follows:

RESOLVED: That the Board of Directors hereby deems it advisable and in the best interests of the Corporation to amend (the "Amendment") Article FOURTH of the Corporation's Third Amended and Restated Certificate of Incorporation by deleting the first paragraph of Article FOURTH in its entirety and substituting in lieu thereof a new Article FOURTH which shall read in its entirety as follows:

FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is 51,000,000 shares, consisting of (i) 50,000,000 shares of Common Stock, $.01 par value per share (the "Common Stock"), and (ii) 1,000,000 shares of Preferred Stock, $.01 par value per share (the "Preferred Stock").

IN WITNESS WHEREOF, the Corporation has caused its corporate seal to be affixed hereto and this Certificate of Amendment to the Third Amended and Restated Certificate of Incorporation of the Corporation to be duly executed on its behalf by its President and attested by its Secretary this 5th day of January, 1995.

AVID TECHNOLOGY, INC.

By: /S/ Curt A. Rawley

Curt A. Rawley
President

ATTEST:

By: /S/ Jonathan H. Cook

Jonathan H. Cook
Secretary

CERTIFICATE OF CORRECTION FILED TO CORRECT
A CERTAIN ERROR IN THE CERTIFICATE OF
DESIGNATIONS OF AVID TECHNOLOGY, INC.
FILED IN THE OFFICE OF THE SECRETARY OF STATE
OF DELAWARE ON MARCH 6, 1996.

Avid Technology, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware,

DOES HEREBY CERTIFY:

The name of the corporation is Avid Technology, Inc.

That a Certificate of Designations was filed by the Secretary of State of Delaware on March 6, 1996 and that said Certificate requires correction as permitted by Section 103 of the General Corporation Law of the State of Delaware.

The inaccuracies or defects of said Certificate to be corrected are as follows:

(1) That the IN WITNESS WHEREOF paragraph incorrectly states that the certificate is executed on behalf of the President.

(2) That Section 6, Paragraph (A) incorrectly states that Series A Preferred Stock is entitled to a minimum preferential liquidation payment of $10 Per Share.

That the IN WITNESS WHEREOF paragraph is corrected to read as follows:

IN WITNESS WHEREOF, this certificate of Designations is executed on behalf of the Corporation by its Vice Chairman of the Board of Directors and attested by its Assistant Secretary this 4th day of March, 1996.

Section 6, Paragraph (A) of the Certificate is corrected to read as follows:

Section 6. Liquidation Dissolution or Winding Up.

(A) Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock unless, prior thereto, the holders of shares of Series A Preferred Stock shall have received $1,000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, provided that the holders of the shares of Series A Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1,000 times the aggregated amount to be distributed per share to holders of shares of Common Stock, or (2) to the holders of shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except distributions made ratably on the Series A Preferred Stock and all such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up.

IN WITNESS WHEREOF, said Avid Technology, Inc. has caused this Certificate to be signed by Curt A. Rawley, Vice-Chairman of the Board of Directors and attested by Mark G. Borden, its Assistant Secretary, this 28th day of March, 1996.

AVID TECHNOLOGY, INC.

By: /S/ Curt A. Rawley

Its Vice-Chairman of the Board of Directors

ATTEST:

By: /S/ Mark G. Borden

Assistant Secretary

CERTIFICATE OF DESIGNATIONS

OF

AVID TECHNOLOGY, INC.

Avid Technology, Inc., a corporation organized and existing under the laws of the State of Delaware (hereinafter called the "Corporation"), hereby certifies that the following resolution was adopted by the Board of Directors of the Corporation at a meeting duly called and held on February 29, 1996:

RESOLVED: That pursuant to the authority granted to and vested in the Board of Directors of this Corporation (hereinafter called the "Board of Directors" or the "Board") in accordance with the provisions of the Certificate of Incorporation, as amended, the Board of Directors hereby creates a series of Preferred Stock, $.01 par value (the "Preferred Stock"), of the Corporation and hereby states the designation and number of shares, and fixes the relative rights, preferences and limitations thereof as follows:

Series A Junior Participating Preferred Stock:

Section 1. Designation and Amount. The shares of such series shall be designated as "Series A Junior Participating Preferred Stock" (the "Series A Preferred Stock") and the number of shares constituting the Series A Preferred Stock shall be Five Hundred Thousand (500,000). Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Series A Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Corporation convertible into Series A Preferred Stock.

Section 2. Dividends and Distributions.

(A) Subject to the rights of the holders of any shares of any series of Preferred Stock (or any similar stock) ranking prior and superior to the Series A Preferred Stock with respect to dividends, the holders of shares of Series A Preferred Stock, in preference to the holders of Common Stock, par value $.01 per share (the "Common Stock"), of the Corporation, and of any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds of the Corporation legally available for the payment of dividends, quarterly dividends payable in cash on the last day of each fiscal quarter of the Corporation in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) $10 or (b) subject to the provision for adjustment hereinafter set forth, 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision, combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event. In the event the Corporation shall at any time declare or pay any dividend on the Series A Preferred Stock payable in shares of Series A Preferred Stock, or effect a subdivision, combination or consolidation of the outstanding shares of Series A Preferred Stock (by reclassification or otherwise than by payment of a dividend in shares of Series A Preferred Stock) into a greater or lesser number of shares of Series A Preferred Stock, then in each such case the amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under clause (b) of the first sentence of this Section 2 (A) shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Series A Preferred Stock that were outstanding immediately prior to such event and the denominator of which is the number of shares of Series A Preferred Stock outstanding immediately after such event.

(B) The Corporation shall declare a dividend or distribution on the Series A Preferred Stock as provided in paragraph (A) of this Section immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock) and the Corporation shall pay such dividend or distribution on the Series A Preferred Stock before the dividend or distribution declared on the Common Stock is paid or set apart; provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $10 per share on the Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. The holders of shares of Series A Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series A Preferred Stock shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision, combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event. In the event the Corporation shall at any time declare or pay any dividend on the Series A Preferred Stock payable in shares of Series A Preferred Stock, or affect a subdivision, combination or consolidation of the outstanding shares of Series A Preferred Stock (by reclassification or otherwise than by payment of a dividend in shares of Series A Preferred Stock) into a greater or lesser number of shares of Series A Preferred Stock, then in each such case the number of votes per share to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Series A Preferred Stock that were outstanding immediately prior to such event and the denominator of which is the number of shares of Series A Preferred Stock outstanding immediately after such event.

(B) Except as otherwise provided herein, in the Certificate of Incorporation or by law, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock and any other capital stock of the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(C) (i) If at any time dividends on any Series A Preferred Stock shall be in arrears in an amount equal to six quarterly dividends thereon, the holders of the Series A Preferred Stock, voting as a separate series from all other series of Preferred Stock and classes of capital stock, shall be entitled to elect two members of the Board of Directors in addition to any Directors elected by any other series, class or classes of securities and the authorized number of Directors will automatically be increased by two. Promptly thereafter, the Board of Directors of this Corporation shall, as soon as may be practicable, call a special meeting of holders of Series A Preferred Stock for the purpose of electing such members of the Board of Directors. Said special meeting shall in any event be held within 45 days of the occurrence of such arrearage.

(ii) During any period when the holders of Series A Preferred Stock, voting as a separate series, shall be entitled and shall have exercised their right to elect two Directors, then and during such time as such right continues (a) the then authorized number of Directors shall be increased by two, and the holders of

Series A Preferred Stock, voting as a separate series, shall be entitled to elect the additional Directors so provided for, and (b) each such additional Director shall not be a member of any existing class of the Board of Directors, but shall serve until the next annual meeting of stockholders of the election of Directors, or until his successor shall be elected and shall qualify, or until his right to hold such office terminates pursuant to the provisions of this Section 3 (C).

(iii) A Director elected pursuant to the terms hereof may be removed with or without cause by the holders of Series A Preferred Stock entitled to vote in an election of such Director.

(iv) If, during any interval between annual meetings of stockholders for the election of Directors and while the holders of Series A Preferred Stock shall be entitled to elect two Directors, there is no Director in office by reason of resignation, death or removal, then, promptly thereafter, the Board of Directors shall call a special meeting of the holders of Series A Preferred Stock for the purpose of filing such vacancy and such vacancy shall be filled at such special meeting. Such special meeting shall in any event be held within 45 days of the occurrence of such vacancy.

(v) At such time as the arrearage is fully cured, and all dividends accumulated and unpaid on any shares of Series A Preferred Stock outstanding are paid, and, in addition thereto, at least one regular dividend has been paid subsequent to curing such arrearage, the term of office of any Director elected pursuant to this Section 3 (C), or his successor, shall automatically terminate, and the authorized number of Directors shall automatically decrease by two, the rights of the holders of the shares of the Series A Preferred Stock to vote as provided in this Section 3 (C) shall cease, subject to renewal from time to time upon the same terms and conditions, and the holders of shares of the Series A Preferred Stock shall have only the limited voting rights elsewhere herein set forth.

(D) Except as set forth herein, or as otherwise provided by law, holders of Series A Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends, or make any other distributions, on any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock;

(ii) declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except dividends paid ratably on the Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Preferred Stock; or

(iv) redeem or purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, or any shares of stock ranking on a parity with the Series A Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such chares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Reacquired Shares. Any shares of Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock subject to the conditions and restrictions on issuance set forth herein, in the Certificate of Incorporation, or in any other Certificate of Designations creating a series of Preferred Stock or any similar stock or as otherwise required by law.

Section 6. Liquidation, Dissolution or Winding Up.

(A) Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock unless, prior thereto, the holders of shares of Series A Preferred Stock shall have received $10 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, provided that the holders of shares of Series A Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1,000 times the aggregate amount to be distributed per share to holders of shares of Common Stock, or (2) to the holders of shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except distributions made ratably on the Series A Preferred Stock and all such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up.

(B) Neither the consolidation, merger or other business combination of the Corporation with or into any other corporation nor the sale, lease, exchange or conveyance of all or any part of the property, assets or business of the Corporation shall be deemed to be a liquidation, dissolution or winding up of the Corporation for purposes of this Section 6.

(C) In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision, combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under the proviso in clause (1) of paragraph (A) of this Section 6 shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event. In the event the Corporation shall at any time declare or pay any dividend on the Series A Preferred Stock payable in shares of Series A Preferred Stock, or effect a subdivision, combination or consolidation of the outstanding shares of Series A Preferred Stock (by reclassification or otherwise then by payment of a dividend in shares of Series A Preferred Stock) into a greater or lesser number of shares of Series A Preferred Stock, then in each such case the aggregate amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under the proviso in clause (1) of paragraph (A) of this Section 4 shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Series A Preferred Stock that were outstanding immediately prior to such event and the denominator of which is the number of shares of Series A Preferred Stock outstanding immediately after such event.

Section 7. Consolidation, Merger, etc. Notwithstanding anything to the contrary contained herein, in case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series A Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision, combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event. In the event the Corporation shall at any time declare or pay any dividend on the Series A Preferred Stock payable in shares of Series A Preferred Stock, or effect a subdivision, combination or consolidation of the outstanding shares of Series A Preferred Stock (by reclassification or otherwise than by payment of a dividend in shares of Series A Preferred Stock) into a greater or lesser number of shares of Series A Preferred Stock, then in each such case the amount set forth in the first sentence of this Section 7 with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Series A Preferred Stock that were outstanding immediately prior to such event and the denominator of which is the number of shares of Series A Preferred Stock outstanding immediately after such event.

Section 8. No Redemption.The shares of Series A Preferred Stock shall not be redeemable.

Section 9. Rank. The Series A Preferred Stock shall rank, with respect to the payment of dividends and the distribution of assets, junior to all series of any other class of the Preferred Stock issued either before or after the issuance of the Series A Preferred Stock, unless the terms of any such series shall provide otherwise.

Section 10. Amendment. The Certificate of Incorporation, as amended, of the Corporation shall be not amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series A Preferred Stock, voting together as a single class.

Section 11. Fractional Shares. Series A Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and have the benefit of all other rights of holders of Series A Preferred Stock.

IN WITNESS WHEREOF, this Certificate of Designations is executed on behalf of the Corporation by its President and attested by its Assistant Secretary this 4th day of March, 1996.

AVID TECHNOLOGY, INC.

By: /S/ Curt A. Rawley

Vice Chairman

ATTEST:

By: /S/ Mark G. Borden

Assistant Secretary

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: November 14, 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: November 14, 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 September 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: November 14, 2005

/s/ David A. Krall

David A. Krall
President and Chief Executive Officer

Dated: November 14, 2005

/s/ Paul J. Milbury

Paul J. Milbury
Chief Financial Officer