AVID TECHNOLOGY, INC.
Avid Technology Park
One Park West
Tewksbury, MA 01876

November 13, 2003

Securities and Exchange Commission
450 Fifth Street, N.W.
Judiciary Plaza
Washington, DC 20549

Re: Avid Technology, Inc.
File No. 0-21174
Quarterly Report on Form 10-Q

Ladies and Gentlemen:

Pursuant to regulations of the Securities and Exchange Commission, submitted herewith for filing on behalf of Avid Technology, Inc. is the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2003.

This filing is being effected by direct transmission to the Commission's EDGAR System.

Very truly yours,

/s/ Carol E. Kazmer

Carol E. Kazmer
General Counsel

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, 2003

Commission File Number 0-21174

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

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

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

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

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

Yes X No _____

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

Yes X No _____

The number of shares outstanding of the registrant's Common Stock as of November 4, 2003 was 30,726,430.

AVID TECHNOLOGY, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003

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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 September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Net revenues | $119,090 | $107,832 | $344,584 | $305,935 |
| Cost of revenues | 52,784 | 53,222 | 155,619 | 153,528 |
| Gross profit | 66,306 | 54,610 | 188,965 | 152,407 |
| Operating expenses: | | | | |
| Research and development | 20,706 | 20,916 | 63,833 | 61,145 |
| Marketing and selling | 27,959 | 25,677 | 80,971 | 75,418 |
| General and administrative | 5,670 | 5,454 | 16,632 | 14,985 |
| Restructuring and other costs, net | 76 | - | 1,859 | (327) |
| Amortization of intangible assets | 341 | 257 | 975 | 861 |
| Total operating expenses | 54,752 | 52,304 | 164,270 | 152,082 |
| Operating income | 11,554 | 2,306 | 24,695 | 325 |
| Other income (expense), net | 592 | 259 | 1,330 | (192) |
| Income before income taxes | 12,146 | 2,565 | 26,025 | 133 |
| Provision for income taxes | 300 | 300 | 900 | 1,400 |
| Net income (loss) | $11,846 | $2,265 | $25,125 | ($1,267) |
| Net income (loss) per common share - basic | $0.40 | $0.09 | $0.88 | ($0.05) |
| Net income (loss) per common share - diluted | $0.35 | $0.09 | $0.78 | ($0.05) |
| Weighted average common shares outstanding - basic | 29,865 | 26,287 | 28,663 | 26,064 |
| Weighted average common shares outstanding - diluted | 33,380 | 26,550 | 32,059 | 26,064 |

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

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

| | September 30, 2003 (unaudited) | December 31, 2002 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $94,376 | $62,174 |
| Marketable securities | 77,273 | 26,860 |
| Accounts receivable, net of allowances of $9,646 and $10,614 at September 30, 2003 and December 31, 2002, respectively | 60,843 | 65,942 |
| Inventories | 38,558 | 38,047 |
| Deferred tax assets, net | 686 | 663 |
| Prepaid expenses | 5,010 | 4,515 |
| Other current assets | 6,470 | 6,741 |
| Total current assets | 283,216 | 204,942 |
| Property and equipment, net | 22,309 | 25,731 |
| Intangible assets, net | 1,118 | 1,513 |
| Goodwill | 1,087 | 1,087 |
| Other assets | 2,869 | 2,530 |
| Total assets | $310,599 | $235,803 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $16,477 | $24,297 |
| Accrued compensation and benefits | 19,420 | 13,425 |
| Accrued expenses and other current liabilities | 25,116 | 28,730 |
| Income taxes payable | 9,253 | 8,877 |
| Deferred revenues | 42,115 | 35,483 |
| Total current liabilities | 112,381 | 110,812 |
| Long-term obligations under capital leases, net of current portion | 759 | 1,427 |
| Total liabilities | 113,140 | 112,239 |
| Contingencies (Note 5) | | |
| Stockholders' equity: | | |
| Preferred stock | - | - |
| Common stock | 304 | 273 |
| Additional paid-in capital | 409,332 | 364,481 |
| Accumulated deficit | (210,240) | (235,365) |
| Deferred compensation | (43) | (216) |
| Accumulated other comprehensive loss | (1,894) | (5,609) |
| Total stockholders' equity | 197,459 | 123,564 |
| Total liabilities and stockholders' equity | $310,599 | $235,803 |

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, 2003 | Nine Months Ended September 30, 2002 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | $25,125 | ($1,267) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 9,343 | 9,821 |
| Provision for doubtful accounts | 418 | 1,350 |
| Compensation expense from stock grants and options | 169 | 901 |
| Equity in income of non-consolidated company | (155) | (158) |
| Gain on sale of business | - | (327) |
| Write-down of investment in non-consolidated company | - | 1,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 5,869 | 16,183 |
| Inventories | (515) | (8,027) |
| Prepaid expenses and other current assets | 84 | 669 |
| Accounts payable | (7,627) | 7,123 |
| Income taxes payable | 610 | (2,378) |
| Accrued expenses, compensation and benefits | 742 | (3,744) |
| Deferred revenues and deposits | 6,637 | 1,458 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 40,700 | 22,604 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (4,578) | (7,117) |
| Payments for other long-term assets | (360) | (130) |
| Dividend from non-consolidated company | 85 | 59 |
| Payments for business acquisitions | (409) | - |
| Proceeds from sale of business | - | 327 |
| Purchases of marketable securities | (59,181) | (16,173) |
| Proceeds from sales of marketable securities | 11,347 | 21,099 |
| NET CASH USED IN INVESTING ACTIVITIES | (53,096) | (1,935) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on capital leases | (463) | - |
| Payment on note issued in connection with acquisition | - | (13,020) |
| Proceeds from issuance of common stock under employee stock plans | 44,887 | 2,032 |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | 44,424 | (10,988) |
| Effects of exchange rate changes on cash and cash equivalents | 174 | 573 |
| Net increase in cash and cash equivalents | 32,202 | 10,254 |
| Cash and cash equivalents at beginning of period | 62,174 | 45,613 |
| Cash and cash equivalents at end of period | $94,376 | $55,867 |

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

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

## 1. FINANCIAL INFORMATION

The accompanying condensed consolidated financial statements include the accounts of Avid Technology, Inc. and its wholly owned subsidiaries (collectively, "Avid" or the "Company"). These financial statements are unaudited. However, in the opinion of management, the condensed consolidated financial statements include all adjustments, consisting of only normal, recurring adjustments, necessary for their fair presentation. Interim results are not necessarily indicative of results expected for a full year. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include all information and footnotes necessary for a complete presentation of operations, financial position, and cash flows of the Company, in conformity with generally accepted accounting principles. The Company filed audited consolidated financial statements for the year ended December 31, 2002 on Form 10-K, which included all information and footnotes necessary for such presentation. Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation.

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, inventory valuation and income tax asset valuation allowances. Actual results could differ from those estimates.

## 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, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Net income (loss) | $11,846 | $2,265 | $25,125 | ($1,267) |
| Weighted average common shares outstanding - basic | 29,865 | 26,287 | 28,663 | 26,064 |
| Weighted average potential common stock | 3,515 | 263 | 3,396 | - |
| Weighted average common shares outstanding - diluted | 33,380 | 26,550 | 32,059 | 26,064 |
| Net income (loss) per common share - basic | $0.40 | $0.09 | $0.88 | ($0.05) |
| Net income (loss) per common share - diluted | $0.35 | $0.09 | $0.78 | ($0.05) |
| Common stock options and warrants that were considered anti-dilutive securities and excluded from the diluted net income (loss) per share calculations were as follows, on a weighted-average basis: | 1,165 | 8,330 | 1,257 | 8,282 |

For the three and nine months ended September 30, 2003 and 2002, 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.

## 3. INVENTORIES

Inventories consisted of the following (in thousands):

| | September 30, 2003 | December 31, 2002 |
|---|---|---|
| Raw materials | $12,629 | $13,402 |
| Work in process | 1,798 | 2,697 |
| Finished goods | 24,131 | 21,948 |
| | $38,558 | $38,047 |

As of September 30, 2003 and December 31, 2002, the finished goods inventory included deferred costs of $11.3 million and $8.6 million, respectively, associated with product shipped to customers for which revenue had not yet been recognized.

## 4. ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for stock-based awards to employees using the intrinsic value method as prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, no compensation expense is recorded for options issued to employees in fixed amounts and with fixed exercise prices at least equal to the fair market value of the Company's common stock at the date of grant. When the exercise price of stock options granted to employees is less than the fair market value of common stock at the date of grant, the Company records that difference multiplied by the number of shares under option as deferred compensation, which is then amortized over the vesting period of the options. Additionally, deferred compensation is recorded for restricted stock granted to employees based on the fair market value of the Company's stock at date of grant less the amount paid, if any, for the stock by the employee and is amortized over the period during which the restrictions lapse. For holders of these options or shares who are terminated, the Company ceases amortization and reclassifies the associated deferred compensation to additional paid-in capital. The Company follows the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," for employee awards. All stock-based awards to non-employees are accounted for at their fair value in accordance with SFAS No. 123.

The following table illustrates the effect on net income (loss) and income (loss) 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, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Net income (loss) as reported | $11,846 | $2,265 | $25,125 | ($1,267) |
| Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects | 35 | 86 | 64 | 272 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (2,737) | (2,617) | (9,310) | (8,959) |
| Pro forma net income (loss) | $9,144 | ($266) | $15,879 | ($9,954) |

| | | | | |
|---|---|---|---|---|
| Net income (loss) per share: | | | | |
| Basic-as reported | $0.40 | $0.09 | $0.88 | ($0.05) |
| Basic-pro forma | $0.31 | ($0.01) | $0.55 | ($0.38) |
| Diluted-as reported | $0.35 | $0.09 | $0.78 | ($0.05) |
| Diluted-pro forma | $0.27 | ($0.01) | $0.50 | ($0.38) |

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.

5. CONTINGENCIES

On March 11, 1996, Avid was named as a defendant in a patent infringement suit filed in the United States District Court for the Western District of Texas by Combined Logic Company, a California partnership located in Beverly Hills, California. On May 16, 1996, the suit was transferred to the United States District Court for the Southern District of New York on motion by the Company. The complaint alleges infringement by Avid of U.S. patent number 4,258,385, and seeks injunctive relief, treble damages and costs, and attorneys' fees. The Company believes it has meritorious defenses to the complaint and intends to contest it vigorously. However, an adverse resolution of this litigation could have an adverse effect on the Company's consolidated financial position or results of operations in the period in which the litigation is resolved. No costs have been accrued for this possible loss contingency.

In March 1999, Avid and Tektronix, Inc. were sued by Glen Holly Entertainment, Inc., a Tektronix distributor, claiming that Tektronix's discontinuance of the Tektronix Lightworks product line was the result of a strategic alliance by Tektronix and Avid. Glen Holly raised antitrust and common law claims against the Company and Tektronix, and sought lost future profits, treble damages, attorneys' fees, and interest. The anti-trust claims against the Company and Tektronix were dismissed by the United States District Court for the District of California on March 23, 2001, and the remaining common law claim against Avid was dismissed by stipulation and court order on April 6, 2001. Glen Holly appealed the lower court's decision. On September 9, 2003, a three-judge panel of the U.S. Court of Appeals for the Ninth Circuit reversed in part the lower court's dismissal and sent the antitrust claims back to the lower court for further findings. Avid and Tektronix filed a Petition for a rehearing by the three-judge panel and a rehearing by the full Ninth Circuit on September 23, 2003. All lower court proceedings are stayed pending a decision on rehearing. Avid continues to view the complaint and appeal as without merit and will continue to defend itself vigorously. However, an adverse resolution of this litigation could have an adverse effect on the Company's consolidated financial position or results of operations in the period in which the litigation is resolved. No costs have been accrued for this possible loss contingency.

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

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

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

The Company has a standby letter of credit at a bank that is used as a security deposit in connection with the Company's Daly City, California office space lease. In the event of default on this lease, the landlord would, as of September 30, 2003 be eligible to draw against this letter of credit to a maximum of $5.1 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, 2003, the Company was not in default of this lease.

The Company, through a third party, provides lease financing options to its customers, including distributors. 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, 2003 and December 31, 2002, Avid's maximum recourse exposure totaled approximately $14.4 million and $15.8 million, respectively. The Company records revenue from these transactions upon the shipment of products, provided that all other revenue recognition criteria are met, and maintains a reserve for estimated losses under this recourse lease program based on historical default rates. At September 30, 2003 and December 31, 2002, the Company's accrual for estimated losses was $2.9 million and $3.3 million, respectively. To date,actual losses incurred under this lease financing program have not differed materially from management's estimate.

Avid provides warranty on hardware sold through its Video segment which generally mirrors the manufacturers' warranties. The Company charges the related material, labor and freight expense to cost of revenues in the period incurred. With respect to the Audio business, Avid provides warranty on externally sourced and internally developed hardware and records an accrual for the related liability based on historical trends and actual material and labor costs. The warranty period for all of the Company's products is generally 90 days to one year but can extend up to five years depending on the manufacturer's warranty. As of September 30, 2003, the Company's accrued product warranty liability was approximately $1.2 million.

The following table sets forth the activity in the product warranty accrual account for the nine months ended September 30, 2003 (in thousands):

| | |
|---|---|
| Accrual balance at December 31, 2002 | $922 |
| Accruals for product warranties | 1,813 |
| Cost of warranty claims | (1,511) |
| Accrual balance at September 30, 2003 | $1,224 |

6. COMPREHENSIVE INCOME

Total comprehensive income, net of taxes, consists of net income (loss), 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, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Net income (loss) | $11,846 | $2,265 | $25,125 | ($1,267) |
| Net changes in: | | | | |
| Foreign currency translation adjustment | 436 | (563) | 3,675 | 1,478 |
| Unrealized gains (losses) on securities | (6) | (5) | 40 | 9 |
| Total comprehensive income | $12,276 | $1,697 | $28,840 | $220 |

7. SEGMENT INFORMATION

The Company's organizational structure is based on strategic business units that offer various products to the principal markets in which the Company's products are sold. These business units equate to two reportable segments: Video and Film Editing and Effects, and Professional Audio. The Company does not track or report segment assets as part of the assessment of segment performance. 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, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Video and Film Editing and Effects: | | | | |
| Net revenues | $86,689 | $73,821 | $243,420 | $203,797 |
| Operating income (loss) | $9,746 | ($1,390) | $17,574 | ($10,328) |
| Professional Audio: | | | | |
| Net revenues | $32,401 | $34,011 | $101,164 | $102,138 |
| Operating income | $2,225 | $3,953 | $9,955 | $11,187 |
| Combined Segments: | | | | |
| Net revenues | $119,090 | $107,832 | $344,584 | $305,935 |
| Operating income | $11,971 | $2,563 | $27,529 | $859 |

The following table reconciles operating income for reportable segments to total consolidated amounts for the three- and nine-month period ended September 30, 2003 and 2002 (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Total operating income for reportable segments | $11,971 | $2,563 | $27,529 | $859 |
| Unallocated amounts: | | | | |

| | | | | |
|---|---|---|---|---|
| Amortization of acquisition-related intangible assets | (341) | (257) | (975) | (861) |
| Restructuring and other costs, net | (76) | - | (1,859) | 327 |
| Consolidated operating income | $11,554 | $2,306 | $24,695 | $325 |

## 8. RESTRUCTURING AND OTHER COSTS, NET

In December 2002, the Company recorded a charge of $3.3 million in connection with vacating excess space in its Tewksbury, Massachusetts; Daly City, California; and Montreal, Canada facilities. The portion of the charge related to Tewksbury ($0.5 million) resulted from a revision of the Company's estimate of the timing and amount of future sublease income associated with that facility for which a charge had previously been included in a 2001 restructuring. The remaining portion of the charge for Daly City and Montreal was a result of the Company's ceasing to use a portion of each facility in December 2002, and hiring real estate brokers to assist in finding subtenants. In September 2003, the Company revised its estimate of the timing and amount of future sublease income associated with its Daly City facility resulting in a $0.1 million charge.

In March 2003, the Company implemented a restructuring program under which 48 employees worldwide were terminated, and a leased facility in California was vacated. In connection with these actions, the Company recorded a $1.8 million restructuring charge during the first quarter of 2003. The charge included $1.2 million for severance and related costs for terminated employees and $0.6 million for facility vacancy costs, including a $0.4 million non-cash charge relating to the disposition of leasehold improvements.

The Company recorded the December 2002 and March 2003 charges in accordance with the guidance of Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 requires that a liability be recognized for an operating lease that is not terminated based on the 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 potential 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.

The following table sets forth the activity in the restructuring accrual accounts for the nine months ended September 30, 2003 (in thousands):

| | Employee Related | Facilities Related | Total |
|---|---|---|---|
| Accrual balance at December 31, 2002 | $433 | $4,934 | $5,367 |
| Restructuring charge | 1,177 | 641 | 1,818 |
| Revisions of estimated liabilities | (80) | 121 | 41 |
| Cash payments | (1,480) | (1,402) | (2,882) |
| Non-cash disposals | - | (412) | (412) |
| Accrual balance at September 30, 2003 | $50 | $3,882 | $3,932 |

The majority of the facilities-related accrual represents lease payments due on vacated premises and estimated losses incurred or expected to be incurred on subleases of such space. The leases extend through 2010 unless the Company is able to negotiate an earlier termination.

In December 1999, the Company entered into an agreement to sell its Italian subsidiary to a third party. As part of that transaction, the Company extended the buyers $0.8 million of loans, which were fully reserved through the restructuring and other costs, net line. During the quarter ended June 30, 2002, the Company received the third and final payment of $0.3 million under these loans. Upon receipt of the payment, the Company recorded such amount as a credit to restructuring and other costs, net.

## 9. RECENT ACCOUNTING PRONOUNCEMENTS

In November 2002, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") reached a consensus on Issue 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). The Company determined that its multiple element arrangements fall within the scope of SOP 97-2 and therefore EITF 00-21 is not applicable to the Company. In July 2003, the EITF reached consensus on Issue 03-05, "Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement

Containing More-Than-Incidental Software" ("EITF 03-05"). EITF 03-05 concludes that software-related elements include software-related products and services such as those listed in paragraph 9 of SOP 97-2, as well as other deliverables for which the software is essential to their functionality (e.g. computer hardware). Elements included in arrangements that do not qualify as software-related elements are to be accounted for under the guidance of EITF 00-21 and not SOP 97-2. EITF 03-05 is applicable for revenue arrangements entered into after October 1, 2003. The Company believes that generally elements included in its multiple element arrangements qualify as software-related elements and therefore EITF 03-05 is not applicable to the Company.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS No. 149"). SFAS No. 149 amends and clarifies accounting for derivative instruments including certain derivative instruments embedded in other contracts and hedging activities under SFAS No. 133. It is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of this standard did not have a material impact on the Company's financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting For Certain Financial Instruments with Characteristics of Both Liabilities and Equity" which establishes standards for how an issuer of financial instruments classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) if, at inception, the monetary value of the obligation is based solely or predominantly on a fixed monetary amount known at inception, variations in something other than the fair value of the issuer's equity shares or variations inversely related to changes in the fair value of the issuer's equity shares. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this standard did not have a material impact on the Company's financial position or results of operations.

PART I. FINANCIAL INFORMATION

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

OVERVIEW

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

Make Media. Our Video and Film Editing and Effects segment offers digital, non-linear video and film editing systems and 3D and special effects software that enable customers 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 Professional Audio segment, Digidesign, 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 Digidesign/Avid audio hardware, software, and control surfaces, and allow users to record, edit, mix, process, and master audio in an integrated manner.

Manage Media. We provide complete network, storage, and database solutions based on our Avid Unity MediaNetwork technology. This technology enables users to simultaneously share and manage media assets throughout a project or organization. The ability to effectively manage digital media assets 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 game developers and Internet professionals. Projects produced using our products have been honored with Oscar(R), Emmy(R), and Grammy(R) awards, as well as a host of other international awards. (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.)

In April 2003, we unveiled a new family of products called Digital Nonlinear Accelerators, or Avid DNA, a powerful series of specialized computer hardware products engineered specifically for media processing. When paired with our next-generation nonlinear editing software, the Avid DNA family enables professionals to achieve real-time functionality and superior image and sound quality when capturing, editing, finishing and outputting DV, SD and HD video formats. The Avid DNA family includes Avid Media Composer Adrenaline and Avid Newscutter Adrenaline FX, both of which began shipping in the second quarter of 2003, and Avid Xpress Pro and Avid Mojo, which began shipping in the third quarter of 2003. The Avid Media Composer Adrenaline leverages the key features of its predecessor to offer improved quality, speed and performance in high-pressure time-sensitive television and film editing and production environments. The Avid Newscutter Adrenaline FX expands news editing capabilities by offering speed, reliability and a range of professional news-oriented editing and workflow features in a turnkey PC-based platform. Avid Xpress Pro software and the Avid Mojo accelerator deliver professional video, film, and audio editing capabilities including automatic color correction, real-time digital and analog output and are qualified to run on a wide range of Windows-based CPUs as well as on the Power Mac G5. The Avid DNA family also includes Avid DS Nitris which began shipping in the fourth quarter of 2003. The Avid DS Nitris is a powerful finishing tool delivering real-time effects and color correction. Our results for the balance of the year will depend, in part, on market acceptance of these new products.

## RESULTS OF OPERATIONS

### Net Revenues

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. This market has been, and we expect it to continue to be, highly competitive. A significant portion of these revenues is generated by sales near the end of each quarter, which can impact our ability to accurately forecast revenues on a quarterly basis. Increasingly, revenues are also being derived from sales of "solutions" encompassing multiple products and networking capabilities that enable users to share and manage media throughout a project or organization. Such solution sales may include training and installation services, as well as workflow management assistance, to be provided by us or a third party. Depending upon the complexity of the arrangement and the level of our involvement, the revenues resulting from these solution sales may be deferred for one or more quarters while the services are being performed.

Net revenues increased by $11.3 million (10.4%) to $119.1 million in the quarter ended September 30, 2003 from $107.8 million for the same quarter in 2002. This increase occurred across many product lines in our Video and Film Editing and Effects ("Video") segment, most notably in our Broadcast and Unity Products, particularly those sold as part of large solutions described above. These increases were partially offset by a slight decline in sales in our Professional Audio ("Audio") segment. Revenue from the combined segments includes a positive translation currency effect of approximately $4.8 million in 2003 versus the same period a year ago (assuming prior quarter revenues were expressed at current quarter exchange rates), primarily due to a strengthening of the euro.

Net revenues increased by $38.6 million (12.6%) to $344.6 million for the nine months ended September 30, 2003 from $305.9 million for the nine months ended September 30, 2002. The increase occurred in our Video segment with Unity and Broadcast Products showing the most significant increases, particularly those sold as part of large solutions described above. These increases were slightly offset by a decline in sales in our Audio segment. Revenue from the combined segments includes a positive translation currency effect of approximately $15.8 million as compared to the nine month period ended September 30, 2002 (assuming prior quarter revenues were expressed at current quarter exchange rates), primarily due to a strengthening of the euro.

Net revenues derived through indirect channels were approximately 73% of net revenues for the three months ended September 30, 2003, compared to 81% of net revenues for the same period in 2002. Indirect channel revenues were approximately 74% of net revenues for the nine months ended September 30, 2003, compared to approximately 82% for the same period in 2002. In both cases, the decrease was due primarily to the higher proportion of Broadcast revenue in the current period, which is sold primarily through our direct sales force.

Sales in the Americas have typically accounted for approximately 55% of our consolidated net revenues, while sales in Europe and Asia Pacific represent the remaining 45%. However, the relative percentages of sales among the regions can vary based on, among other things, the impact of currency exchange rate variations on revenues, the timing of revenue recognition of solutions sales, and local economic conditions.

Sales in the Americas accounted for 54% and 56% of our third quarter 2003 and 2002 net revenues, respectively. For each of the nine-month periods ended September 30, 2003 and 2002, sales in the Americas accounted for 56% and 55% of net revenues, respectively. For the three-month period ended September 30, 2003, Americas sales increased by approximately $4.4 million or 7.2%, compared to the same period in 2002. For the nine-month period ended September 30, 2003, Americas sales increased by approximately $22.0 million or 13.0%, compared to the same period in 2002.

Sales in the Europe and Asia Pacific regions accounted for 46% and 44% of our third quarter 2003 and 2002 net revenues, respectively. For the nine-month periods ended September 30, 2003 and 2002, sales in the Europe and Asia Pacific regions accounted for 44% and 45% of net revenues, respectively. The combined Europe and Asia Pacific sales in the third quarter of 2003 increased by approximately $6.9 million or 14.5%, compared to the same period in 2002. For the nine-month period ended September 30, 2003, sales increased by approximately $16.6 million or 12.2%, compared to the same period in 2002.

## 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; royalties for third-party software included in the products; and provisions for inventory obsolescence. The resulting gross profit 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.

Gross margin increased to 55.7% in the third quarter of 2003 compared to 50.6% in the same period of 2002. This increase was primarily due to a positive impact on revenue from currency exchange rates with no offsetting impact on costs of revenues as most of our manufacturing costs are transacted in U.S. dollars. Additionally, there was a favorable product mix due to the introduction of Media Composer Adrenaline in the quarter ended June 30, 2003 which has a higher gross margin than many of our other products.

Gross margin increased to 54.8% for the nine months ended September 30, 2003 from 49.8% for the same period in 2002. This increase was primarily due to a positive impact from currency exchange rate fluctuations, a more favorable product mix due to the introduction of Media Composer Adrenaline in the quarter ended June 30, 2003, and a decrease in price reductions and discounting primarily in the Americas.

## Research and Development

Research and development expenses decreased by $0.2 million (1.0%) in the third quarter of 2003 compared to the same period in 2002 and increased by $2.7 million (4.4%) for the nine months ended September 30, 2003 compared to the same period in 2002. The decrease in the three-month period ended September 30, 2003 was primarily due to decreased engineering outsourcing associated with the development of our new DNA products, largely offset by increased variable compensation-related expenses. The increase in the nine-month period ended September 30, 2003 was primarily the result of variable compensation-related expenses and engineering outsourcing associated with the development of new products. Research and development expenses decreased to 17.4% of net revenues in the third quarter of 2003 from 19.4% in the same quarter of 2002. Research and development expenses decreased to 18.5% of net revenues for the nine months ended September 30, 2003 from 20.0% for the same period in 2002. For both periods the decrease in research and development expenses as a percentage of net revenues is primarily due to the increased revenue base.

## Marketing and Selling

Marketing and selling expenses increased by $2.3 million (8.9%) in the third quarter of 2003 compared to the same period in 2002 and increased by $5.6 million (7.4%) for the nine months ended September 30, 2003 compared to the same period in 2002. The increase in both periods was primarily due to increased employee compensation expenses attributable in part to a small increase in the number of employees, but also to variable compensation, as well as certain costs associated with our new product releases. Marketing and selling expenses decreased to 23.5% of net revenues in the third quarter of 2003 from 23.8% in the same quarter of 2002. Marketing and selling expenses decreased to 23.5% of net revenues for the nine months ended September 30, 2003 from 24.7% for the same period in 2002. For both periods the decrease in marketing and selling expenses as a percentage of net revenue is due to the increased revenue base.

## General and Administrative

General and administrative expenses increased by $0.2 million (4.0%) in the third quarter of 2003 compared to the same period in 2002 and increased by $1.6 million (11.0%) for the nine months ended September 30, 2003 compared to the same period in 2002. The increase in both periods was primarily due to variable compensation-related expenses. The nine-month period ended September 30, 2003 also included increased legal and audit fees both primarily related to costs of complying with recent legislation. General and administrative expenses decreased to 4.8% of net revenues in the third quarter of 2003 from 5.1% in the same quarter of 2002 and decreased to 4.8% from 4.9% of net revenues for the nine months ended September 30, 2003 and 2002, respectively, due, for all periods, to the increased revenue base.

## Restructuring and Other Costs, Net

In March 2003, we implemented a restructuring program under which 48 employees worldwide were terminated, and a leased facility in California was vacated. In connection with these actions, we recorded a $1.8 million restructuring charge during the first quarter of 2003. The charge included $1.2 million for severance and related costs for terminated employees and $0.6 million for facility vacancy costs, including a $0.4 million non-cash charge relating to the disposition of leasehold improvements. In September 2003, we revised our estimate of the timing and amount of future sublease income associated with our Daly City facility resulting in a $0.1 million charge.

In December 1999, we entered into an agreement to sell our Italian subsidiary to a third party. As part of that transaction, we extended the buyers $0.8 million of loans, which were fully reserved through restructuring and other costs, net. During the quarter ended June 30, 2002, we received the third and final payment of $0.3 million under these loans. We recorded this payment as a credit to restructuring and other costs, net

## Amortization of Acquisition-Related Intangible Assets

We recorded intangible assets associated with acquiring the following businesses: Rocket Network, Inc. in 2003; iKnowledge, Inc. in 2002; iNews, LLC in 2001; and The Motion Factory, Inc. in 2000. In connection with these acquisitions, we allocated $4.8 million of the purchase consideration to completed technologies which are being amortized over periods ranging from 3 to 4.5 years. Included in the operating results for each of the quarters ended September 30, 2003 and 2002 is amortization of these intangible assets of $0.3 million. For the nine-month periods ended September 30, 2003 and 2002 operating results included amortization of $1.0 million and $0.9 million, respectively.

## Other Income (Expense), Net

Other income (expense), net generally consists of interest income and interest expense, but can also include income or losses associated with certain non-consolidated companies. Other income (expense), net for the third quarter of 2003 increased $0.3 million to $0.6 million from the same period in 2002, primarily due to higher interest income earned on significantly higher average cash, cash equivalents, and marketable securities balances. For the nine-month period ended September 30, 2003, other income (expense), net increased to $1.3 million of income compared to net expense of $0.2 million for the same period in 2002. The increase was due to the 2002 write-off of $1.0 million relating to an impaired investment accounted for under the cost method as well as higher interest income earned in 2003.

## Provision for Income Taxes

We recorded a tax provision of $0.3 million in each of the first three quarters of 2003 and $0.6 million, $0.5 million and $0.3 million for the first, second and third quarters of 2002, respectively. The provision for the first three quarters of 2003 was substantially comprised of taxes payable by our foreign subsidiaries with only alternative minimum tax provided on anticipated U.S taxable profits. Regular federal income taxes resulting from anticipated U.S. profits have been offset by the utilization of deductions from acquisition-related temporary differences and net operating loss carry-forwards; the tax benefit of these items is reflected in a net reduction in the valuation allowance. However, due to the remaining level of deferred tax assets and the level of related historical taxable income, we have determined that the uncertainty regarding the realization of these assets is sufficient to warrant the continued establishment of a valuation allowance against nearly all of our deferred tax assets.

The provision for the first three quarters of 2002 was generally comprised of taxes payable by our foreign subsidiaries with no tax benefit provided on the losses before income taxes in the U.S.

## LIQUIDITY AND CAPITAL RESOURCES

We have funded our operations to date through both private and public sales of equity securities, including stock option exercises from our employee stock plans, as well as through cash flows from operations. As of September 30, 2003, our principal sources of liquidity included cash, cash equivalents and marketable securities totaling $171.6 million.

Net cash provided by operating activities was $40.7 million for the nine months ended September 30, 2003 compared to $22.6 million for the same period in 2002. During the nine months ended September 30, 2003, net cash provided by operating activities primarily reflects net income adjusted for depreciation and amortization as well as an increase in deferred revenue and a decrease in accounts receivable, partially offset by a decrease in accounts payable. During the nine months ended September 30, 2002, net cash provided by operating activities primarily reflects the net loss adjusted for depreciation and amortization and other non-cash adjustments as well as a decrease in accounts receivable and an increase in accounts payable, partly offset by an increase in inventory.

We purchased $4.6 million of property and equipment during the nine months ended September 30, 2003, compared to $7.1 million in the same period in 2002. In both of these periods, the purchases were primarily hardware and software to support research and development.

During the nine months ended September 30, 2003 and 2002, we received net cash proceeds of $44.9 million and $2.0 million, respectively, from the issuance of common stock upon stock option exercises and under our employee stock purchase plan. In February 2002, we made a payment of $13.0 million in full satisfaction of our outstanding note to Microsoft Corporation, issued in connection with our 1998 Softimage acquisition.

Our cash requirements vary depending upon factors such as obligations under past restructuring programs, capital expenditures and the possible acquisition of businesses or technologies complementary to our business. We believe 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 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 2002, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") reached a consensus on Issue 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). We determined that its multiple element arrangements fall within the scope of SOP 97-2 and therefore EITF 00-21 is not applicable to us. In July 2003, the EITF reached consensus on Issue 03-05, "Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software" ("EITF 03-05"). EITF 03-05 concludes that software-related elements include software-related products and services such as those listed in paragraph 9 of SOP 97-2, as well as other deliverables for which the software is essential to their functionality (e.g. computer hardware). Elements included in arrangements that do not qualify as software-related elements are to be accounted for under the guidance of EITF 00-21 and not SOP 97-2. EITF 03-05 is applicable for revenue arrangements entered into after October 1, 2003. We believe that generally elements included in its multiple element arrangements qualify as software-related elements and therefore EITF 03-05 is not applicable to us.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS No. 149"). SFAS No. 149 amends and clarifies accounting for derivative instruments including certain derivative instruments embedded in other contracts and hedging activities under SFAS No. 133. It is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of this standard did not have a material impact on our financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting For Certain Financial Instruments with Characteristics of Both Liabilities and Equity" which establishes standards for how an issuer of financial instruments classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) if, at inception, the monetary value of the obligation is based solely or predominantly on a fixed monetary amount known at inception, variations in something other than the fair value of the issuer's equity shares or variations inversely related to changes in the fair value of the issuer's equity shares. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this standard did not have a material impact on our financial position or results of operations.

## 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:

Our performance will depend in part on market acceptance of our new digital nonlinear editing products.

We recently introduced several new products, including a line of digital nonlinear accelerators and next-generation Media Composer and Newscutter systems, as well as Avid Xpress Pro with Avid Mojo. In addition, Avid DS Nitris began shipping in the fourth quarter of 2003. We will need to continue to focus marketing and sales efforts on educating potential customers, as well as our resellers, about the uses and benefits of these products. Our future success will depend in part on the acceptance and wide use of these products. In addition, there are several other risks involved with offering new products, including, without limitation, the possibility of defects or errors, failure to meet customer expectations, delays in shipping new products and the introduction of similar products by our competitors. At the same time, the introduction and transition to new products could have a negative impact on the market for our existing products, which could adversely affect our revenues and business. The future success of these products will also depend in part on the widespread adoption of high definition video.

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

We are currently building our presence in the broadcast market and have augmented our NewsCutter product offering with the Avid Unity for News products, and the server, newsroom, and browser products obtained in the Pluto and iNews acquisitions. The broadcast market is distinguished from our traditional Video business in that turn-key, fully integrated, complex "solutions" (including the configuration of unique workflows), rather than discrete point products, are frequently required by the customer. As a relatively new player in the broadcast market, we may encounter difficulties in establishing ourselves, creating compelling customer solutions, and developing a strong, loyal customer base.

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 market 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 run meeting our customers' needs. Meanwhile, our competitors may devote greater resources to the broadcast market than we do, or may be able to leverage their market presence more effectively. If we are unsuccessful in capturing and maintaining a share of this digital broadcast market or in predicting and satisfying customer demand, our business and revenues could be adversely affected.

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

Currently, products of our Digidesign division have captured a significant portion of the professional audio market. Digidesign's strong performance in recent years reflects 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. The timely development of new or enhanced products is a complex and uncertain process, and we could experience design, manufacturing, marketing, or other difficulties that delay or prevent our development, introduction or marketing of new products or enhancements, which, in turn, could harm our business.

We are expanding our product line and offering solutions to new markets, and our future revenues depend in part on the success of this expansion.

Traditionally, we have been a point products company. Increasingly, we are providing end-to-end solutions for our customers. We are expanding our product line beyond our core video and audio editing markets to offer digital

media production solutions to the broadcast news market (including cable and Internet news), the on-line film and video finishing market, and the emerging market for multimedia production tools (including the Internet and corporate markets). Because these markets are evolving, we must anticipate our customers' future needs and introduce compelling new products, gain market acceptance, and establish appropriate distribution channels, support, and maintenance. In addition, our continued growth in the broadcast market will depend in part on the widespread adoption of all-digital production methods. If we fail to accurately anticipate the demands of the broadcast market, we may need to adjust our plans accordingly, which could cause delays, unexpected expenses, and reallocation of our resources, and which in turn could harm our business and reduce our operating results.

Our products are complex and delays or difficulties in introducing new products could harm our business.

Our future success will depend in part on our ability to offer products that compete favorably with our competitors' products in terms of reliability, performance, ease of use, range of features, product enhancements, reputation, price, and training. Delays or difficulties in product development and introduction may harm our business. Our products are 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, increased product returns, lack of market acceptance, and damage to our reputation.

New product announcements by our competitors and by us could have the effect of reducing customer demand for our existing products. Some of our new products constitute upgrades of existing products. In the past, we have offered discounts on the price of such upgrades to existing customers, which, where appropriate, have been based upon the return of circuit boards and system keys. To the extent that such circuit boards and system keys are not returned, it can decrease the revenue generated by such new 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 have less time to devote to selling our products.

The markets for our products are competitive, and we expect competition to intensify in the future.

The digital video, audio, and animation markets are competitive, with limited barriers to entry, and are characterized by pressure to reduce prices, incorporate new features, and accelerate the release of new products. Many of our current and potential competitors have substantially greater financial, technical, distribution, support, or 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. Further, such competitors may be able to develop products comparable or superior to ours, or adapt more quickly to new technologies or evolving customer requirements. If we are unable to compete effectively in our target markets, our business and results of operations could suffer.

Competition in the 3-D market has increased dramatically.

The 3-D market has changed significantly since we acquired Softimage, a 3D company, in August 1998. Our competitors' products have eroded our market share and have contributed to downward price pressure, which has resulted in reduced margins. In addition, we have experienced delays in introducing new products into the 3-D animation market. Finally, revenues in recent years have been increasingly derived from sales to the games industry and non-traditional markets. If these non-traditional markets were to slow or delay their purchases of 3-D tools, our revenues could be adversely affected. To the extent that these factors continue or worsen, our business could suffer.

We use independent firms and contractors to perform some of our product development activities.

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. The use of independent firms and contractors, especially those located abroad, could expose us to risks related to governmental regulation, intellectual property ownership and rights, exchange rate fluctuation, political instability and unrest, natural disasters, and other risks, which could adversely impact our revenues.

We depend on a number of sole source suppliers.

We are dependent on a number of specific suppliers for certain key components of our products. We purchase these sole source components pursuant to purchase orders placed from time to time. We generally do not carry significant inventories of these sole source components and have no guaranteed supply arrangements. If any of our sole source vendors failed to supply or enhance such components, it could imperil our supply of these components and our ability to continue selling and servicing products that use these components. Similarly, if any of our vendors encountered technical, operating or financial difficulties, it could threaten our supply of these components. While we believe that alternative sources for these 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.

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 most notably, Microsoft's Windows and Apple's Macintosh and OSX platforms. Computer platform modifications and upgrades require additional time to be spent to ensure that our products will function properly. To the extent that the current configuration of the qualified and supported platforms changes or that we need to qualify and support new platforms, we could be required to expend valuable engineering resources, which is likely to 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 included in such products;
o product distribution channels;
o acceptance of our new product introductions;
o product offers and platform upgrades;
o price discounts and sales promotion programs;
o volume of sales of aftermarket hardware products;
o costs of swapping or fixing products released to the market with defects;
o provisions for inventory obsolescence;
o competitive pressure on product prices;
o costs incurred in connection with "solution" sales, which typically have longer selling and implementation cycles; and
o timing and delivery of "solutions" to customers.

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

Our operating results could be harmed by currency fluctuations.

A significant portion of our business is conducted in currencies other than the U.S. dollar. Accordingly, changes in the value of major foreign currencies (including the euro, the British pound, and the Japanese yen) relative to the value of the U.S. dollar could lower future revenues and operating results.

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

Our operating expense levels are based, in part, on our expectations of future revenues. Such future revenues are difficult to predict. For example, the recent worldwide economic slowdown had an impact on our results, and if this slowdown persists, it could have the potential to lower our revenues. Additionally, a significant portion of our business occurs near the end of each quarter, which can impact our ability to precisely forecast revenues on a quarterly basis. 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.

Poor global macroeconomic conditions could disproportionately impact our industry.

As a result of recent unsettled economic conditions, our customers in the media, broadcast and content-creation industries have delayed or reduced expenditures. The revenue growth and profitability of our business depends primarily on the overall demand for our products. Softening demand for our products resulting from ongoing economic uncertainty may result in decreased revenues or earnings levels or growth rates. If global economic conditions worsen, demand for our products may weaken, and our business and results of operations could suffer.

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 international conflicts.

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

We sell many of our Video products and services, and substantially all of our Audio products and services, indirectly through resellers and distributors. The resellers and distributors of our Video segment products typically purchase Avid software and Avid - specific hardware from us, and third-party components from various other vendors, in order to produce complete systems for resale. Any disruption to our resellers and distributors, or their third-party suppliers, could reduce our revenues. Moreover, we are increasingly distributing our products directly, which could put us in competition with our resellers and distributors and could adversely affect our revenues.

Most of the resellers and distributors of our Video products are not granted rights to return products after purchase, and actual product returns from them have been insignificant to date. However, our revenue from sales of Audio products is generally derived 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 provided, as a reduction of revenues, upon shipment of the related products to such distributors and resellers, based upon our historical experience. To date, actual returns have not differed materially from management's estimates. However, if returns of our Audio segment products were to exceed estimated levels, our revenues and operating results could be adversely impacted.

If we become dependent on third-party hardware for our products, our operating results could be harmed.

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

Our future growth could be harmed if we lose the services of our key personnel.

Our success depends upon the services of a number of key current employees. The loss of the services of one or more of these key employees could harm our business. Our success also depends upon our ability to attract highly skilled new employees. Competition for such employees is intense in the industries and geographic areas in which we operate. If we are unable to compete successfully for such employees, our business could suffer.

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 and/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.

Regulations could be enacted that restrict our Internet initiatives.

Federal, state, and international authorities may adopt new laws and regulations governing the Internet, including laws and regulations covering issues such as privacy, distribution, and content. The enactment of any such laws or regulations could impede the growth of the Internet, harm our Internet initiatives, and place additional financial burdens on our business.

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 rights of others. We rely upon a combination of patent, copyright, trademark and trade secret laws, confidentiality procedures, and contractual provisions, as well as hardware security keys, to protect our proprietary technology. However, our means of protecting our proprietary rights may not be adequate. From time to time unauthorized parties have obtained, copied, and used information that we consider proprietary. Policing the unauthorized use of our proprietary technology is costly and time-consuming and we are unable to measure the extent to which piracy of our software exists, and software piracy can be expected 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 are currently involved in various legal proceedings, including patent litigation. An adverse resolution of any such proceedings could harm our business and reduce our results of operations. See Note 5, " Contingencies" in our unaudited quarterly financial statements.

If we acquire other companies or businesses, we will be subject to risks that could hurt our business.

We periodically acquire businesses, form strategic alliances, or make debt or equity investments. The risks associated with such acquisitions, alliances, and investments include, among others, the difficulty of assimilating the operations and personnel of the target companies, the failure to realize anticipated returns on investment, cost savings and synergies, and the diversion of management's time and attention. Such acquisitions, alliances, and investments often involve significant transaction-related costs and could cause short-term disruption to normal operations. If we are unable to overcome or counter these risks, it could undermine our business and lower our operating results.

A portion of our sales are financed under a third-party leasing program.

We have an established leasing program with a third party that allows certain of our customers who choose to do so to finance their purchases. 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, and this could adversely impact our revenues.

Our stock price may continue to be volatile.

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

- changes in our quarterly operating results;
- shortfalls in 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; and
- global macroeconomic conditions.

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

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

### Market Risk

Our primary exposures to market risk are 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 nearly 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 risk 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. 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. 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, 2003, we had $28.6 million of forward-exchange contracts outstanding, denominated in euros, Canadian dollars, British pounds, Japanese yen, Singapore dollars, and Australian dollars as a hedge against forecasted foreign currency-denominated receivables, payables and cash balances. For the three- and nine-month periods ended September 30, 2003, net losses of $0.6 million and $3.8 million, respectively, resulting from forward-exchange contracts were included in the results of operations. These losses were partially offset by net transaction and translation gains on the related asset and liabilities for the three- and nine-month periods ended September 30, 2003 of $0.1 million and $3.5 million, respectively. 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, 2003, we held $171.6 million in cash, cash equivalents and marketable securities, including short-term 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 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 defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2003. In designing and evaluating our disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applied its judgment in evaluating the cost-benefit relationships of possible controls and procedures. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of September 30, 2003, our disclosure controls and procedures were (1) designed to ensure that material information relating to us, including our consolidated subsidiaries, is made known to our chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2003 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 March 1999, Avid and Tektronix, Inc. were sued by Glen Holly Entertainment, Inc., a Tektronix distributor, claiming that Tektronix's discontinuance of the Tektronix Lightworks product line was the result of a strategic alliance by Tektronix and Avid. Glen Holly raised antitrust and common law claims against Avid and Tektronix, and sought lost future profits, treble damages, attorneys' fees, and interest. The anti-trust claims against Avid and Tektronix were dismissed by the United States District Court for the District of California on March 23, 2001, and the remaining common law claim against Avid was dismissed by stipulation and court order on April 6, 2001. Glen Holly appealed the lower court's decision. On September 9, 2003, a three-judge panel of the U.S. Court of Appeals for the Ninth Circuit reversed in part the lower court's dismissal and sent the antitrust claims back to the lower court for further findings. Avid and Tektronix filed a Petition for Rehearing and Rehearing En Banc on September 23, 2003. All lower court proceedings are stayed pending a decision on rehearing. Avid continues to view the complaint and appeal as without merit and will continue to defend itself vigorously. However, an adverse resolution of this litigation could have an adverse effect on our consolidated financial position or results of operations in the period in which the litigation is resolved. No costs have been accrued for this possible loss contingency.

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

10.1 Amended and Restated 1996 Employee Stock Purchase Plan

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.

(b) REPORTS ON FORM 8-K

A report on Form 8-K furnished July 17, 2003, reporting under Item 9 the announcement that on July 17, 2003, the Company issued a press release regarding its financial results for the quarter ended June 30, 2003. In accordance with Securities and Exchange Commission Release No. 33-8216, the information contained in the Form 8-K, which was intended to be furnished under Item 12, "Results of Operations and Financial Condition," was instead furnished under Item 9, "Regulation FD Disclosure."

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 13, 2003

By: /s/ Paul J. Milbury

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

Date: November 13, 2003

By: /s/ Carol L. Reid

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

EXHIBIT INDEX

| Exhibit No. | Description |
| --- | --- |
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Exhibit 10.1

AVID TECHNOLOGY, INC.

AMENDED AND RESTATED
1996 EMPLOYEE STOCK PURCHASE PLAN

The purpose of the Amended and Restated 1996 Employee Stock Purchase Plan (the "Plan") is to provide eligible employees of Avid Technology, Inc. (the "Company") and certain of its subsidiaries with opportunities to purchase shares of the Company's common stock, $.01 par value (the "Common Stock"), commencing on August 1, 1996. An aggregate of One Million, Seven Hundred Thousand (1,700,000) shares of Common Stock have been approved for this purpose.

1. Administration. The Plan will be administered by the Company's Board of Directors (the "Board") or by a Committee appointed by the Board (the "Committee"). The Board or the Committee has authority to make rules and regulations for the administration of the Plan and its interpretation and decisions with regard thereto shall be final and conclusive.

2. Eligibility. Participation in the Plan will neither be permitted nor denied contrary to the requirements of Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"), and regulations promulgated thereunder. All employees of the Company, including members of the Board who are employees, and all employees of any subsidiary of the Company (as defined in Section 424(f) of the Code) designated by the Board or the Committee from time to time (a "Designated Subsidiary"), are eligible to participate in any one or more of the offerings of Options (as defined in Section 9) to purchase Common Stock under the Plan provided that:

(a) they are regularly employed by the Company or a Designated Subsidiary for more than 20 hours a week and for more than five months in a calendar year; and

(b) they have been employed by the Company or a Designated Subsidiary for at least three months prior to enrolling in the Plan; and

(c) they are employees of the Company or a Designated Subsidiary on the first day of the applicable Plan Period (as defined below).

No employee may be granted an Option hereunder if such employee, immediately after the Option is granted, owns 5% or more of the total combined voting power or value of the stock of the Company or any subsidiary. For purposes of the preceding sentence, the attribution rules of Section 424(d) of the Code shall apply in determining the stock ownership of an employee, and all stock which the employee has a contractual right to purchase shall be treated as stock owned by the employee.

3. Offerings. The Company will make one or more offerings ("Offerings") to employees to purchase Common Stock under this Plan. Offerings will begin each February 1, May 1, August 1 and November 1, or the first business day thereafter (the "Offering Commencement Dates"). Each Offering Commencement Date will begin a three month period (a "Plan Period") during which payroll deductions will be made and held for the purchase of Common Stock at the end of the Plan Period. The Board or the Committee may, at its discretion, choose a different Plan Period of twelve (12) months or less for subsequent Offerings.

4. Participation. An employee eligible on the Offering Commencement Date of any Offering may participate in such Offering by completing and forwarding a payroll deduction authorization form to the employee's appropriate payroll office at least 30 days prior to the applicable Offering Commencement Date. The form will authorize a regular payroll deduction from the Compensation (as defined below) received by the employee during the Plan Period. Unless an employee files a new form or withdraws from the Plan, his deductions and purchases will continue at the same rate for future Offerings under the Plan as long as the Plan remains in effect. The term "Compensation" means the amount of money reportable on the employee's Federal Income Tax Withholding Statement, excluding overtime, shift premium, incentive or bonus awards, allowances and reimbursements for expenses such as relocation allowances for travel expenses, income or gains on the exercise of Company stock options or stock appreciation rights, and similar items, whether or not shown on the employee's Federal Income Tax Withholding Statement, but including, in the case of salespersons, sales commissions to the extent determined by the Board or the Committee.

5. Deductions. The Company will maintain payroll deduction accounts for all participating employees. With respect to any Offering made under this Plan,

an employee may authorize a payroll deduction in any dollar amount up to a maximum of ten percent (10%) of the Compensation he or she receives during the Plan Period or such shorter period during which deductions from payroll are made. However, the maximum contribution during any Plan Period cannot exceed $2,500. The Board or the Committee may set a minimum payroll deduction requirement.

No employee may be granted an Option (as defined in Section 9) which permits his rights to purchase Common Stock under this Plan and any other stock purchase plan of the Company and its subsidiaries, to accrue at a rate which exceeds $25,000 of the fair market value of such Common Stock (determined at the Offering Commencement Date of the Plan Period) for each calendar year in which the Option is outstanding at any time.

6. Deduction Changes. An employee may decrease or discontinue his payroll deduction once during any Plan Period, by filing a new payroll deduction authorization form. However, an employee may not increase his payroll deduction during a Plan Period. If an employee elects to discontinue his payroll deductions during a Plan Period, but does not elect to withdraw his funds pursuant to Section 8 hereof, funds deducted prior to his election to discontinue will be applied to the purchase of Common Stock on the Exercise Date (as defined below).

7. Interest. Interest will not be paid on any employee accounts, except to the extent that the Board or the Committee, in its sole discretion, elects to credit employee accounts with interest at such per annum rate as it may from time to time determine.

8. Withdrawal of Funds. An employee may at any time prior to the close of business on the last business day in a Plan Period and for any reason permanently draw out the balance accumulated in the employee's account and thereby withdraw from participation in an Offering. Partial withdrawals are not permitted. The employee may not begin participation again during the remainder of the Plan Period. The employee may participate in any subsequent Offering in accordance with terms and conditions established by the Board or the Committee, except that employees who are also directors or officers of the Company within the meaning of Section 16 of the Securities Exchange Act of 1934 (the "Exchange Act") and the rules promulgated thereunder may not participate again for a period of at least six months as provided in Rule 16b-3(d)(2)(i) or any successor provision.

9. Purchase of Shares. On the Offering Commencement Date of each Plan Period, the Company will grant to each eligible employee who is then a participant in the Plan an option ("Option") to purchase on the last business day of such Plan Period (the "Exercise Date"), at the Option Price (as defined below), such number of whole shares of Common Stock of the Company reserved for issuance under the Plan as does not exceed the number of shares determined by multiplying $2,083 by the number of full months in the Plan Period and dividing the result by the closing price, as defined below, on the Offering Commencement Date of such Plan Period.

The purchase price for each share purchased will be 95% of the closing price of the Common Stock on the Exercise Date. Such closing price shall be (a) the closing price on any national securities exchange on which the Common Stock is listed, (b) the closing price of the Common Stock on the NASDAQ National Market or (c) the average of the closing bid and asked prices in the over-the-counter market, whichever is applicable, as published in The Wall Street Journal. If no sales of Common Stock were made on such a day, the price of the Common Stock for purposes of clauses (a) and (b) above shall be the reported price for the next preceding day on which sales were made.

Each employee who continues to be a participant in the Plan on the Exercise Date shall be deemed to have exercised his Option at the Option Price on such date and shall be deemed to have purchased from the Company the number of full shares of Common Stock reserved for the purpose of the Plan that his accumulated payroll deductions on such date will pay for pursuant to the formula set forth above (but not in excess of the maximum number determined in the manner set forth above).

Any balance remaining in an employee's payroll deduction account at the end of a Plan Period will be automatically refunded to the employee, except that any balance which is less than the purchase price of one share of Common Stock will be carried forward into the employee's payroll deduction account for the following Offering, unless the employee elects not to participate in the following Offering under the Plan, in which case the balance in the employee's account shall be refunded.

10. Issuance of Certificates. Promptly following the end of each Offering, the number of shares of Common Stock purchased under the Plan shall be deposited into an account established in the name of the employee at a stock brokerage or other financial services firm designated by the Company (the "ESPP Broker").

The employee may direct, by written notice to the Company at the time of his enrollment in the Plan, that his ESPP broker account be established in the name of the employee and another person of legal age as joint tenants with rights of survivorship or (in the Company's sole discretion) in the street name of a brokerage firm, bank or other nominee holder designated by the employee.

A participating employee shall be free to undertake a disposition (as that term is defined in Section 424(c) of the Code) of the shares in his account at any time, whether by sale, exchange, gift, or other transfer of legal title, but in the absence of such a disposition of the shares, the shares must remain in the participating employee's account at the ESPP Broker until the holding period set forth in Section 423(a) of the Code has been satisfied. With respect to shares for which the Section 423(a) holding period has been satisfied, the participating employee may move those shares to another brokerage account of the participating employee's choosing or request that a stock certificate be issued and delivered to him.

A participating employee who is not subject to payment of U.S. income taxes may move his shares to another brokerage account of his choosing or request that a stock certificate be issued and delivered to him at any time, without regard to the satisfaction of the Section 423(a) holding period.

11. Rights on Retirement, Death or Termination of Employment. In the event of a participating employee's termination of employment prior to the last business day of a Plan Period, no payroll deduction shall be taken from any pay due and owing to an employee and the balance in the employee's account shall be paid to the employee or, in the event of the employee's death, (a) to a beneficiary previously designated in a revocable notice signed by the employee (with any spousal consent required under state law) or (b) in the absence of such a designated beneficiary, to the executor or administrator of the employee's estate or (c) if no such executor or administrator has been appointed

to the knowledge of the Company, to such other person(s) as the Company may, in its discretion, designate. If, prior to the last business day of the Plan Period, the Designated Subsidiary by which an employee is employed shall cease to be a subsidiary of the Company, or if the employee is transferred to a subsidiary of the Company that is not a Designated Subsidiary, the employee shall be deemed to have terminated employment for the purposes of this Plan.

12. Optionees Not Stockholders. Neither the granting of an Option to an employee nor the deductions from his pay shall constitute such employee a stockholder of the shares of Common Stock covered by an Option under this Plan until such shares have been purchased by and issued to him.

13. Rights Not Transferable. Rights under this Plan are not transferable by a participating employee other than by will or the laws of descent and distribution, and are exercisable during the employee's lifetime only by the employee.

14. Application of Funds. All funds received or held by the Company under this Plan may be combined with other corporate funds and may be used for any corporate purpose.

15. Adjustment in Case of Changes Affecting Common Stock. In the event of a subdivision of outstanding shares of Common Stock, or the payment of a dividend in Common Stock, the number of shares approved for this Plan shall be increased proportionately and such other adjustments shall be made as may be deemed equitable by the Board or the Committee. In the event of any other change affecting the Common Stock, such adjustments shall be made as may be deemed equitable by the Board or the Committee to give proper effect to such event.

16. Merger. If the Company shall at any time merge or consolidate with another corporation and the holders of the capital stock of the Company immediately prior to such merger or consolidation continue to hold at least 80% by voting power of the capital stock of the surviving corporation ("Continuity of Control"), the holder of each Option then outstanding will thereafter be entitled to receive at the next Exercise Date upon the exercise of such Option for each share as to which such Option shall be exercised the securities or property which a holder of one share of the Common Stock was entitled to upon and at the time of such merger, and the Committee shall take such steps in connection with such merger as the Committee shall deem necessary to assure that the provisions of Paragraph 15 shall thereafter be applicable, as nearly as reasonably may be, in relation to the said securities or property as to which such holder of such Option might thereafter be entitled to receive thereunder.

In the event of a merger or consolidation of the Company with or into another corporation which does not involve Continuity of Control, or of a sale of all or substantially all of the assets of the Company while unexercised Options remain outstanding under the Plan, (a) subject to the provisions of clauses (b) and (c), after the effective date of such transaction, each holder of an outstanding Option shall be entitled, upon exercise of such Option, to receive in lieu of shares of Common Stock, shares of such stock or other securities as the holders of shares of Common Stock received pursuant to the terms of such transaction; or (b) all outstanding Options may be cancelled by the Board or the Committee as of a date prior to the effective date of any such transaction and all payroll deductions shall be paid out to the participating employees; or (c) all outstanding Options may be cancelled by the Board or the Committee as of the effective date of any such transaction, provided that notice of such cancellation shall be given to each holder of an Option, and each holder of an Option shall have the right to exercise such Option in full based on payroll deductions then credited to his account as of a date determined by the Board or the Committee, which date shall not be less than ten (10) days preceding the effective date of such transaction.

17. Amendment of the Plan. The Board may at any time, and from time to time, amend this Plan in any respect, except that (a) if the approval of any such amendment by the shareholders of the Company is required by Section 423 of the Code or by Rule 16b-3 under the Exchange Act, such amendment shall not be effected without such approval, and (b) in no event may any amendment be made which would cause the Plan to fail to comply with Section 16 of the Exchange Act and the rules promulgated thereunder, as in effect from time to time, or Section 423 of the Code.

18. Insufficient Shares. In the event that the total number of shares of Common Stock specified in elections to be purchased under any Offering plus the number of shares purchased under previous Offerings under this Plan exceeds the maximum number of shares issuable under this Plan, the Board or the Committee will allot the shares then available on a pro rata basis.

19. Termination of the Plan. This Plan may be terminated at any time by the Board. Upon termination of this Plan all amounts in the accounts of participating employees shall be promptly refunded.

20. Governmental Regulations. The Company's obligation to sell and deliver Common Stock under this Plan is subject to listing on a national stock exchange or quotation on the NASDAQ National Market and the approval of all governmental authorities required in connection with the authorization, issuance or sale of such stock. The Plan shall be governed by Delaware law except to the extent that such law is preempted by federal law. The Plan is intended to comply with the provisions of Rule 16b-3 promulgated under the Securities Exchange Act of 1934. Any provision inconsistent with such Rule shall to that extent be inoperative and shall not affect the validity of the Plan.

21. Issuance of Shares. Shares may be issued upon exercise of an Option from authorized but unissued Common Stock, from shares of Common Stock held in the treasury of the Company, or from any other proper source.

22. Notification upon Sale of Shares. Each employee agrees, by enrolling in the Plan, to promptly give the Company notice of any disposition of shares purchased under the Plan where such disposition occurs within two years after the date of grant of the Option pursuant to which such shares were purchased.

23. Effective Date and Approval of Shareholders. The Plan took effect on February 12, 1996 subject to approval by the shareholders of the Company as required by Rule 16b-3 under the Exchange Act and by Section 423 of the Code, which approval was obtained on June 5, 1996.

Exhibit 31.1

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)) 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) 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

    c) 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 13, 2003

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

Exhibit 31.2

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)) 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) 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

    c) 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 13, 2003

/s/ Paul J. Milbury

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

Exhibit 32.1

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

In connection with this Quarterly Report on Form 10-Q of Avid Technology, Inc. (the "Company") for the period ended September 30, 2003, as filed with the Securities Exchange Commission on the date hereof (the "Report"), the undersigned, David A. Krall, 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 13, 2003

/s/ David A. Krall
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David A. Krall
Chief Executive Officer

Dated: November 13, 2003

/s/ Paul J. Milbury
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Paul J. Milbury
Chief Financial Officer