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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, 1996

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.)

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

Registrant's telephone number, including area code: (508) 640-6789

Indicate by check mark whether the registrant 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).

Yes X No \_\_\_\_\_

Indicate by check mark whether the registrant has been subject to such  
filing requirements for the past 90 days.

Yes X No \_\_\_\_\_

The number of shares outstanding of the registrant's Common Stock as of November  
4, 1996 was 21,281,420.

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AVID TECHNOLOGY, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1996

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net revenues	\$114,664	\$114,377	\$315,798	\$296,719
Cost of revenues	60,670	56,408	172,542	144,119
Gross profit	53,994	57,969	143,256	152,600
Operating expenses:				
Research and development	17,569	12,834	51,822	38,184
Marketing and selling	31,303	27,747	94,823	74,854
General and administrative	6,767	4,459	18,346	12,803
Nonrecurring costs	8,800	--	28,950	5,456
Total operating expenses	64,439	45,040	193,941	131,297
Operating income (loss)	(10,445)	12,929	(50,685)	21,303
Interest and other income (expense), net	523	(53)	1,820	720
Income (loss) before income taxes	(9,922)	12,876	(48,865)	22,023
Provision (benefit) for income taxes	(3,164)	4,122	(15,652)	8,097
Net income (loss)	\$(6,758)	\$8,754	\$(33,213)	\$13,926
Net income (loss) per common share	\$(0.32)	\$0.43	\$(1.57)	\$0.71
Weighted average common and common equivalent shares outstanding	21,224	20,344	21,116	19,487

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

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

	September 30, 1996 ----- (unaudited)	December 31, 1995 -----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$72,986	\$32,847
Marketable securities	2,663	17,543
Accounts receivable, net of allowances of \$5,058 and \$6,472 in 1996 and 1995, respectively	83,563	107,859
Inventories	51,667	63,387
Deferred tax assets	23,735	13,006
Other current assets	9,241	8,311
	-----	-----
Total current assets	243,855	242,953
Marketable securities	--	30,102
Property and equipment, net	53,023	48,992
Other assets	2,850	9,557
	-----	-----
Total assets	\$299,728 =====	\$331,604 =====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$23,123	\$29,836
Current portion of long term debt	1,923	1,781
Accrued expenses	29,765	20,787
Income taxes payable	--	6,171
Deferred revenues	25,748	22,118
	-----	-----
Total current liabilities	80,559 -----	80,693 -----
Long-term debt	1,501	2,945
Commitments and contingencies	--	--
Stockholders' equity:		
Preferred stock	--	--
Common stock	213	209
Additional paid-in capital	212,352	208,918
Retained earnings	6,282	39,495
Cumulative translation adjustment	(1,180)	(700)
Net unrealized gains (losses) on marketable securities	1	44
	-----	-----
Total stockholders' equity	217,668 -----	247,966 -----
Total liabilities and stockholders' equity	\$299,728 =====	\$331,604 =====

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

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

	Nine Months Ended September 30,	
	1996	1995
	-----	-----
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$(33,213)	\$13,926
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	21,527	13,475
Provision for doubtful accounts	4,370	2,561
Deferred tax assets	(10,729)	--
Tax benefit of stock option exercises	97	4,856
Provision for product transition costs, non-cash portion	13,150	--
Provision for nonrecurring costs, non-cash portion	6,394	--
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	18,570	(40,412)
Inventories	(2,978)	(21,118)
Other current assets	(711)	(4,625)
Accounts payable	(5,940)	5,941
Accrued expenses and income taxes payable	2,092	3,863
Deferred revenues	4,008	4,216
	-----	-----
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	16,637	(17,317)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capitalized software development costs	(1,296)	(2,235)
Purchases of property and equipment and other assets, net	(21,966)	(36,123)
Purchases of marketable securities	(13,311)	(16,641)
Proceeds from sales of marketable securities	58,250	27,812
	-----	-----
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	21,677	(27,187)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	--	15,000
Proceeds from long-term debt	--	2,733
Payments of long-term debt	(1,488)	(2,274)
Proceeds from issuance of common stock	3,339	93,564
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,851	109,023
Effects of exchange rate changes on cash and cash equivalents	(26)	(30)
	-----	-----
Net increase in cash and cash equivalents	40,139	64,489
Cash and cash equivalents at beginning of period	32,847	23,255
	-----	-----
Cash and cash equivalents at end of period	\$72,986	\$87,744
	=====	=====

Supplemental disclosure of non-cash transactions: For the nine months ended September 30, 1996:

Acquisition of equipment under capital lease obligations.....\$186

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. ("the Company") and its wholly-owned subsidiaries. The interim 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 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, the financial position, and cash flows of the Company, in conformity with generally accepted accounting principles. The Company filed audited consolidated financial statements which included all information and footnotes necessary for such presentation for the year ended December 31, 1995 on Form 10-K.

The Company's preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure 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 included in these financial statements include accounts receivable and sales allowances, inventory valuation and income tax valuation allowances. Actual results could differ from those estimates.

In January 1995, the Company completed a merger with Digidesign, Inc. ("Digidesign"), accounted for as a pooling of interests. The condensed consolidated financial statements for all periods presented herein include the accounts of Avid Technology, Inc. and Digidesign. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995 as filed with the Securities and Exchange Commission on April 1, 1996 (SEC File No. 0-21174).

2. NET INCOME (LOSS) PER COMMON SHARE

Net income per common share is based upon the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares are included in the per share calculations where the effect of their inclusion would be dilutive. Net loss per common share is based upon the weighted average number of common shares outstanding during the period. Common equivalent shares result from the assumed exercise of outstanding stock options, the proceeds of which are then assumed to have been used to repurchase outstanding common stock using the treasury stock method. Fully diluted net income per share is not materially different from the reported primary net income per share for all periods presented.

3. INVENTORIES

Inventories consist of the following (in thousands):

	September 30, 1996	December 31, 1995
Raw materials	\$42,747	\$55,690
Work in process	1,768	1,355
Finished goods	7,152	6,342
	=====	=====
	\$51,667	\$63,387
	=====	=====

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following (in thousands):

	September 30, 1996	December 31, 1995
Computer and video equipment	\$75,148	\$61,085
Office equipment and furniture and fixtures	10,674	9,401
Leasehold improvements	12,377	10,404

	-----	-----
	98,199	80,890
Less accumulated depreciation and amortization	45,176	31,898
	=====	=====
	\$53,023	\$48,992
	=====	=====

## 5. ACQUISITIONS

In January 1995, the Company completed a merger with Digidesign, a developer of digital audio production software and systems. This transaction, which was accounted for as a pooling of interests, was effected through the exchange of approximately 6,000,000 shares of the Company's Common Stock for all the issued and outstanding shares of Digidesign.

In March 1995, the Company acquired Parallax Software Limited and 3 Space Software Limited, developers of paint and compositing software, and Elastic Reality, Inc., a developer of digital image manipulation software. These transactions, which were accounted for as poolings of interests, were effected through the exchange of approximately 1,500,000 shares of the Company's Common Stock for all of the issued and outstanding shares of these entities.

In connection with these acquisitions, the Company in the first quarter of 1995 provided for merger costs of approximately \$5.5 million. Of this amount, approximately \$3.9 million represents direct transaction expenses, primarily professional fees, and \$1.6 million consists of various restructuring charges.

## 6. LINE OF CREDIT

In 1995, the Company entered into an unsecured line of credit with a group of banks which provided for up to \$50,000,000 in revolving credit. The agreement was to expire on June 30, 1996, but was amended as of June 28, 1996 to expire June 28, 1997. Under the terms of the amendment, the Company may borrow up to \$35,000,000. The Company must pay a quarterly commitment fee, which will be calculated based on the debt service ratio of the Company and will range from .25% to .40% on the \$35,000,000 line. The interest rate to be paid on any outstanding borrowings will also be contingent upon the financial performance of the Company and will range from the LIBOR rate plus 1.25% to the LIBOR rate plus 1.75%. Additionally, the Company is required to maintain certain financial ratios and covenants over the life of the agreement, including a restriction on the payment of dividends. The Company had no borrowings against this facility as of September 30, 1996.

## 7. NONRECURRING COSTS

In the first quarter of 1996, the Company recorded a nonrecurring charge of \$20.2 million, consisting of \$7.0 million associated with restructuring, including the Company's costs related to staff reductions and the decision to discontinue development of certain products and projects, and \$13.2 million related to product transition costs associated with the transition from NuBus to PCI bus technology in some of the Company's product lines. The restructuring charge includes approximately \$5.0 million of costs related to a staff reduction of approximately 70 employees and associated write-offs of fixed assets. Approximately \$2.0 million of the \$7.0 million restructuring charge relates to the cancellation of certain products and development projects. As of September 30, 1996, \$6.0 million of the \$7.0 million restructuring charge had been recorded against the liability. Included in this \$6.0 million were approximately \$4.3 million of cash payments consisting of \$2.9 million of salaries and related severance costs and \$1.4 million of other staff reduction and discontinued development costs. The non-cash charges of \$1.7 million recorded during 1996 consists primarily of \$1.5 million for the write-off of fixed assets. The Company expects that the related restructuring actions will be completed by the end of 1996.

In September, 1996 the Company recorded a nonrecurring charge of \$8.8 million, associated primarily with the Company's decision not to release the Avid Media Spectrum product line. This charge includes costs to write-off inventory, fixed assets, capitalized software and various other costs associated with the canceled product line. Approximately \$5.6 million of the \$8.8 million nonrecurring charge relates to non-cash items associated with the write-off of assets. The Company expects that these restructuring actions will be completed by March 31, 1997.

## 8. CONTINGENCIES

In December 1995, six purported shareholder class action complaints were filed in the United States District Court for the District of Massachusetts naming the Company and certain of its underwriters and officers and directors as

defendants. On July 31, 1996, the six actions were consolidated into two lawsuits: one brought under the 1934 Securities Exchange Act (the "`34 Act suit") and one under the 1933 Securities Act (the "`33 Act suit"). Principal allegations contained in the two complaints include claims that the defendants violated federal securities laws and state common law by allegedly making false and misleading statements that were not true when made and by allegedly failing to disclose material information that was required to be disclosed, purportedly causing the value of the Company's stock to be artificially inflated. The `34 Act suit was brought on behalf of all persons who bought the Company's stock between July 26, 1995 and December 20, 1995. The `33 Act suit was brought on behalf of persons who bought the Company's stock in and pursuant to its September 21, 1995 public offering. Both complaints seek unspecified damages for the decline of the value of the Company's stock during the applicable period. Although the Company believes that it and the other defendants have meritorious defenses to the allegations made by the plaintiffs and intends to contest these lawsuits vigorously, an adverse resolution of this litigation could have a material 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.

On March 11, 1996, the Company was named as 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. The complaint alleges infringement by Avid of U.S. patent number 4,258,385, issued in 1981, and seeks injunctive relief, treble damages and costs and attorneys' fees. The Company believes that 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.

On April 23, 1996, the Company was named as defendant in a patent infringement suit filed in the United States District Court for the District of Massachusetts by Data Translation, Inc., of Marlboro, Massachusetts. The complaint alleges infringement by the Company of U.S. patent number 5,488,695 and seeks injunctive relief, treble damages and costs and attorneys' fees. The Company believes that it has meritorious defenses to the complaint and intends to defend 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.

## 9. EMPLOYEE BENEFIT PLANS

In February 1996, the 1994 Stock Option Plan was amended to increase the number of shares authorized for issuance thereunder from 1,600,000 to 2,400,000 shares of Common Stock. The 1993 Director Stock Option Plan was also amended, in April 1996, to increase the number of shares authorized for issuance thereunder from 120,000 shares of Common Stock to 220,000 shares.

On July 31, 1996, the 1993 Employee Stock Purchase Plan expired and was replaced with the 1996 Employee Stock Purchase Plan. The 1996 Employee Stock Purchase Plan authorizes the issuance of a maximum of 200,000 shares of Common Stock in semi-annual offerings at a price equal to the lower of 85% of the closing price on the applicable offering commencement date or 85% of the closing price on the applicable offering termination date.



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

OVERVIEW

The text of this document may include forward-looking statements. Actual results may differ materially from those described herein, depending on such factors as are described herein, including under "CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS."

The Company was founded in 1987 to develop and market digital video editing systems for the production and post production markets. The Company shipped its first product, the Avid/1 Media Composer system, in the fourth quarter of 1989. The Company is currently selling Media Composer system version 6.1. In 1992, the Company began shipping its AudioVision product to the digital audio editing segment of the post production market, and in 1993 introduced Film Composer for the film editing market and a line of disk-based capture, editing and playback products for the broadcast news industry. In 1994, the Company acquired two businesses, SofTECH Systems, Inc. and the newsroom systems division of Basys Automation Systems, Inc., to expand its presence in the newsroom computer systems market. In January 1995, the Company completed its merger with Digidesign, Inc. ("Digidesign"). The Digidesign merger added digital audio production software and related application lines. Pro Tools, the most significant product line acquired in the merger, is marketed to audio professionals. The Media Composer and Pro Tools product lines, together with add-on software, storage devices and associated maintenance fees, have accounted for a substantial majority of the Company's revenues to date. In March 1995, the Company acquired Elastic Reality, Inc., a developer of digital image manipulation software, and Parallax Software Limited and 3 Space Software Limited, together developers of paint and compositing software, all of whose products are sold primarily to the film and video production and post-production markets. In March 1996 and in May 1996, the Company began shipments of the Media Composer and Pro Tools product lines, respectively, for use on PCI-based computers. In June 1996 the Company began selling MCXpress for Macintosh and for Windows NT.

RESULTS OF OPERATIONS

NET REVENUES

The Company's net revenues have been derived mainly from the sales of disk-based digital, nonlinear media editing systems and related peripherals, licensing of related software and sales of software maintenance contracts. Net revenues increased by \$287,000 (.3%) to \$114.7 million in the quarter ended September 30, 1996 from \$114.4 million in the same quarter of last year. Net revenues for the nine months ended September 30, 1996 of \$315.8 million increased by \$19.1 million (6.4%) from \$296.7 million for the nine months ended September 30, 1995. The increase in net revenues was primarily the result of higher unit sales of the Media Composer product line and of digital audio products. In March 1996 and in May 1996, the Company began shipments of the Media Composer and Pro Tools product lines, respectively, for use on PCI-based computers. In June 1996 the Company began selling MCXpress for Macintosh and for Windows NT. To date, product returns of all products have been immaterial.

International sales (sales to customers outside North America) accounted for approximately 47.7% of the Company's 1996 third quarter net revenues compared to approximately 46.0% for the same quarter in 1995. International sales increased by 5.2% for the third quarter of 1996 compared to the same quarter in 1995. The increase in international sales in the third quarter of 1996 was attributable primarily to higher unit sales of Media Composer and Pro Tools product lines in Europe.

International sales accounted for approximately 49.8% and 46.0% of the Company's net revenues for the nine months ended September 30, 1996 and 1995, respectively. International sales increased by 15.2% in the nine-month period ended September 30, 1996 from the same period in 1995. The increase in international sales in 1996 was attributable primarily to higher unit sale of Media Composer and Pro Tools product lines in Europe and the Asia Pacific region.

GROSS PROFIT

Cost of revenues consists primarily of costs associated with the acquisition of components, the assembly, test and distribution of finished products, provisions for inventory obsolescence, warehousing, shipping and post-sales customer support costs. The resulting gross profit fluctuates based on factors such as the mix of products sold, the cost and proportion of third-party hardware included in the systems sold by the Company, the distribution channels through

which products are sold, the timing of new product introductions, the offering of product upgrades, price discounts and other sales promotion programs and sales of aftermarket hardware products. Gross margin decreased to 47.1% in the third quarter of 1996 compared to 50.7% in the third quarter of 1995 and decreased to 45.4% for the nine-month period ended September 30, 1996 from 51.4% for the same period in 1995 due to an increase in manufacturing overhead associated with higher facility and information system costs and increased provisions for inventory obsolescence, increased sales of aftermarket hardware products, and an increase in the percentage of customer support costs allocated to cost of revenues. Gross margins for the nine months ended September 30, 1996 were also negatively affected by upgrading of Media Composer systems for use on PCI-based computers and the recognition of the sale of certain server-based broadcast products at an aggregate gross margin of approximately 20%. In the second quarter of 1996 the Company recognized approximately \$2.4 million in revenues from two of these server-based broadcast systems and approximately \$1.9 million of related costs. The Company expects gross margins during the remainder of 1996 to be less than gross margins in 1995 because of higher manufacturing overhead costs, increased percentage of customer support costs allocated to post-sales support, and higher provisions for inventory obsolescence.

#### RESEARCH AND DEVELOPMENT

Research and development expenses for the third quarter of 1996 increased \$4.7 million (36.9%) from the third quarter of 1995. For the nine-month period ended September 30, 1996, research and development expenses increased \$13.6 million (35.7%) compared to the same period of 1995. These increased expenditures were primarily due to additions to the Company's engineering and product management staffs for the continued development of new and existing products. Research and development expenses increased to 15.3% of net revenues in the third quarter of 1996 compared to 11.2% in the same quarter of 1995 due to significant resources required to develop and maintain various products, including the PCI versions of the Media Composer and Pro Tools products, SGI-based editing and image processing software, newsroom computer systems, video processing hardware and the CamCutter product. In addition, research and development expenses for the third quarter of 1995 and nine months ended 1995 were reduced by approximately \$2.1 million as a result of payments received under certain development agreements with third parties. The Company capitalized software development costs of approximately \$120,000 or 0.7% and \$1.3 million or 2.4% of total research and development costs during the third quarter of 1996 and the nine-month period ended September 30, 1996, respectively. During the third quarter of 1995 and the nine months ended September 30, 1995, respectively, the Company capitalized approximately \$1.2 million or 8.6% and \$2.2 million or 5.4% of total research and development costs. The capitalized software development costs in the third quarter of 1996 were associated primarily with enhancements to the Pro Tools product software. These costs will be amortized into cost of revenues over the estimated life of the related products, generally 12 to 24 months. Amortization totaled approximately \$1.1 million and \$2.4 million during the third quarter of 1996 and the nine-month period ended September 30, 1996, respectively. For the three and nine month periods ended September 30, 1995, amortization totaled approximately \$322,000 and \$792,000, respectively.

#### MARKETING AND SELLING

Marketing and selling expenses for the third quarter of 1996 increased by \$3.6 million (12.8%) from the third quarter of 1995 and increased by \$20.0 million (26.7%) for the nine-month period ended September 30, 1996 compared to the same period in 1995, primarily due to expansion of the Company's sales and pre-sales support organization and the opening of field sales offices domestically and internationally during the later part of 1995. Marketing and selling expenses increased as a percentage of net revenues to 27.3% and 30.0% in the third quarter of 1996 and the nine-month period ended September 30, 1996, respectively, from 24.3% and 25.2% in the corresponding periods in 1995 due primarily to expansion of the Company's field sales operations and to a lesser extent, to higher costs associated with the Company's participation in the National Association of Broadcasters trade show in the second quarter of each year.

#### GENERAL AND ADMINISTRATIVE

General and administrative expenses for the third quarter of 1996 increased by \$2.3 million (51.8%) from the third quarter of 1995 and increased \$5.5 million (43.3%) for the nine-month period ended September 30, 1996, compared to the nine-month period ended September 30, 1995. General and administrative expenses increased as a percentage of net revenues to 5.9% in the third quarter of 1996 from 3.9% in the third quarter of 1995 and to 5.8% from 4.3% for the nine-month period ended September 30, 1996 and the same period in 1995, respectively. These increased expenses were primarily due to increased staffing and associated costs necessary to support the Company's growth, as well as increased legal expenses associated with various litigation matters to which the Company is a party. In addition, general and administrative expenses increased in the third quarter of 1996 due to certain severance and recruiting costs.

#### NONRECURRING COSTS

In the third quarter of 1996, the Company recorded charges for nonrecurring

costs of \$8.8 million, associated primarily with the Company's decision not to release the Avid Media Spectrum product line. During the first quarter of 1996, the Company recorded charges for nonrecurring costs consisting of \$7.0 million for restructuring charges related to staffing reductions and the Company's decision to discontinue certain products and development projects and \$13.2 million for product transition costs in connection with the transition from NuBus to PCI bus technology in certain of its product lines. In the first quarter of 1995, the Company acquired Digidesign, Inc., Parallax Software Limited, 3 Space Software Limited and Elastic Reality, Inc. These transactions, accounted for as poolings of interest, were effected through the exchange of approximately 7,500,000 shares of Common Stock for all of the issued and outstanding shares of these entities. In connection with these acquisitions, the Company recorded merger costs of approximately \$5.5 million, of which \$3.9 million represented direct transaction expenses and \$1.6 million consists of various restructuring charges.

#### INTEREST AND OTHER INCOME, NET

Interest and other income, net consists primarily of interest income, interest expense and other income. Interest income, net for the third quarter of 1996 increased \$576,000 from the third quarter of 1995. For the nine months ended September 30, 1996, interest income, net increased \$1.1 million compared to 1995 primarily due to higher cash and investment balances in 1996 and a gain on sale of the VideoShop product line in the second quarter of 1996.

#### PROVISION FOR INCOME TAXES

The Company's effective tax rate was 32% for both the third quarter of 1996 and 1995. The 1996 and 1995 third quarter effective tax rates are less than the Federal statutory rate of 35% primarily due to the impact of the Company's foreign subsidiaries. The Company's effective tax rate was 32% and 36.8% for the nine-month periods ended September 30, 1996 and September 30, 1995, respectively. The 1995 provision included taxes of \$8.7 million at an effective rate of 32% on \$27.5 million of earnings before merger charges. The 1995 provision for the nine-month period ended September 30, 1995 also included a tax benefit of \$640,000 on merger charges of \$5.5 million, of which \$1.6 million were tax deductible.

#### LIQUIDITY AND CAPITAL RESOURCES.

The Company has funded its operations to date through private sales of equity securities and public offerings of equity securities in 1993 and 1995 which generated net proceeds to the Company of approximately \$67 million and \$88 million, respectively, as well as through cash flows from operations. As of September 30, 1996 the Company's principal sources of liquidity included cash and cash equivalents and marketable securities totaling approximately \$75.6 million.

The Company's operating activities generated cash of \$16.6 million in the nine-month period ended September 30, 1996 compared to using cash of \$17.3 million in the nine-month period ended September 30, 1995. Cash was generated during the nine months ended September 30, 1996 primarily from reductions in accounts receivable and inventory.

The Company purchased \$21.8 million of property and equipment and other assets in the nine months ended September 30, 1996, compared to \$36.1 million in the same period of 1995. These purchases included primarily the purchase of equipment for demonstrating and supporting PCI-based and SGI-based products, hardware and software for the Company's information systems and equipment to support research and development activities.

The Company has had an equipment-financing arrangement with a bank which expired on March 31, 1996. In 1995 the Company entered into an unsecured line of credit with a group of banks which provided for up to \$50,000,000 in revolving credit. The agreement was to expire on June 30, 1996, but was amended as of June 28, 1996 to expire June 28, 1997. Under the terms of the amendment, the Company may borrow up to \$35,000,000. The Company must pay a quarterly commitment fee, which will be calculated based on the debt service ratio of the Company and will range from .25% to .40% on the \$35,000,000 line. The interest rate to be paid on any outstanding borrowings will also be contingent upon the financial performance of the Company and will range from the LIBOR rate plus 1.25% to the LIBOR rate plus 1.75%. Additionally, the Company is required to maintain certain financial ratios and covenants over the life of the agreement, including a restriction on the payment of dividends. The Company has in certain prior periods been in default of certain financial covenants. On these occasions the defaults have been waived by the banks. There can be no assurance that the Company will not default in future periods or that, if in default, it will be able to obtain such waivers. The Company had no borrowings against either the original line of credit or the amended line and was not in default of any financial covenants as of September 30, 1996. The Company believes existing cash, marketable securities, internally generated funds, and available borrowings under its bank credit line will be sufficient to meet the Company's cash requirements, including capital expenditures, at least through the end of 1997. In the event

the Company requires additional financing the Company believes that it would be able to obtain such financing; however, there is no assurance that it would be successful in doing so, or that it could do so on terms favorable to the Company.

#### CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

A number of uncertainties exist that could affect the Company's future operating results, including, without limitation, the following:

The Company's gross margin has fluctuated, and may continue to fluctuate, based on factors such as the mix of products sold, cost and the proportion of third-party hardware included in the systems sold by the Company, the distribution channels through which products are sold, the timing of new product introductions, the offering of product and platform upgrades, price discounts and other sales promotion programs, the volume of sales of aftermarket hardware products, the costs of swapping or fixing products released to the market with errors or flaws, provisions for inventory obsolescence, sales of third-party computer hardware to its distributors, and competitive pressure on selling prices of products. The Company's systems and software products typically have higher gross margins than storage devices and product upgrades. Gross profit varies from product to product depending primarily on the proportion and cost of third-party hardware included in each product. The Company, from time to time, adds functionality and features to its systems. If such additions are accomplished through the use of more, or more costly, third-party hardware, and if the Company does not increase the price of such systems to offset these increased costs, the Company's gross margins on such systems would be adversely affected. The Company expects gross margins during the remainder of 1996 to be less than gross margins in 1995 because of higher manufacturing overhead costs, increased percentage of customer support costs allocated to post-sales support and higher provisions for inventory obsolescence.

In 1995, the Company shipped server-based, all-digital broadcast newsroom systems to a limited number of beta sites. These systems incorporate a variety of the Company's products, as well as a significant amount of hardware purchased from third parties, including computers purchased from Silicon Graphics, Inc. ("SGI"). Because some of the technology and products in these systems were new and untested in live broadcast environments, the Company provided greater than normal discounts to these initial customers. In addition, because some of the technology and products in these systems were new and untested in live broadcast environments, the Company has incurred unexpected delays and greater than expected costs in completing and supporting these initial installations to customers' satisfaction. As a result, the Company expects that it will report, in the aggregate, a loss on these sales, when all revenues and costs are recognized. In the second quarter of 1996, the Company recognized approximately \$2.4 million in revenues from three of these systems and approximately \$1.9 million of related costs. In future quarters, the Company expects to recognize an additional \$6.1 million in revenues and approximately \$7.5 million in costs associated with the remaining systems for which revenues will be recognized. The Company has provided a reserve for this expected loss. Revenues and costs are recognized upon acceptance of the systems by customers. The Company is unable to determine the timing of this acceptance. There can be no assurance that the remaining systems will be accepted by customers or that the Company will not incur further costs in completing the installations. If customers do not accept these systems, the Company could face additional costs associated with reducing the value of the inventory included in the systems. The Company's overall gross margin percentage will be reduced in any quarter or quarters in which the remaining systems are recognized or written off. To the extent that the Company sells additional server-based, all-digital broadcast newsroom systems to other customers in the future, the Company believes that such sales may be profitable. However, the Company believes that because of the high proportion of third-party hardware, including computers and storage devices, included in such systems, that the gross margins on such sales would be lower than the gross margins generally on the Company's other systems.

The Company's operating expense levels are based, in part, on its expectations of future revenues. In recent quarters, 40% or more of the Company's revenues for a quarter have been recorded in the third month of the quarter. Further, in many cases, quarterly operating expense levels cannot be reduced rapidly in the event that quarterly revenue levels fail to meet internal expectations. Therefore, if quarterly revenue levels fail to meet internal expectations, the Company's operating results would be adversely affected and there can be no assurance that the Company would be able to operate profitably. Reductions of certain operating expenses, if incurred, in the face of lower than expected revenues could involve material one-time charges associated with reductions in headcount, trimming product lines, eliminating facilities and offices and writing off fixed assets and inventory.

The Company has recently initiated steps designed to shift an increasing proportion of its sales through indirect channels such as distributors and resellers. The Company expects that this shift will result in an increase in the

number of software and circuit board "kits" sold through indirect channels in comparison with turnkey systems consisting of CPU's, monitors, and peripheral devices including accompanying software and circuit boards sold by the Company through its direct sales force to customers. Therefore, to the extent the Company increases its sales through indirect channels, its revenue per unit sale will be less than it would have been had the same sale been made directly by the Company. In the event the Company is unable to increase the volume of sales in order to offset this decrease in revenue per sale or is unable to reduce its costs associated with such sales, profits could be adversely affected. Because the Company to date has emphasized sales through its direct sales channels, there is no assurance that the Company will be able to increase the volume of sales through indirect channels or that it will be able to reduce its costs in sufficient amounts to operate profitably.

The Company has expanded its product line to address the digital media production needs of the television broadcast news market and the emerging market for lower priced production and post production tools, including the corporate and industrial user market. The Company has limited experience in serving these markets, and there can be no assurance that the Company will be able to develop such products successfully, or that such products will achieve widespread customer acceptance. A significant portion of the Company's future growth will depend on customer acceptance in these and other new markets. Any failure of such products to achieve market acceptance, additional costs and expenses incurred by the Company to improve market acceptance of such products, or the withdrawal from the market of such products or of the Company from such new markets could have a material adverse effect on the Company's business and results of operations.

The Company had announced the introduction of several new editing and image processing products which were designed to operate on computers from SGI. In August 1996, the company determined not to release one of these SGI-based products, Avid Media Spectrum, which had been expected to be released during the second half of 1996. In the third quarter of 1996, the Company incurred a one-time charge of \$8.8 million primarily associated with the costs of implementing this decision. The failure of the other SGI-based products to achieve market acceptance, the delay or deferral of customer purchase decisions, the cost of any upgrade programs that may be implemented by the Company, or the inability of the Company or its dealers to secure an adequate supply of SGI computer systems could have a material adverse effect on the Company's business and results of operations.

The Company's products generally operate only on Apple computers. Apple has recently been suffering business and financial difficulties. In consideration of these difficulties, there can be no assurance that customers will not delay purchases of Apple-based products, or purchase substitutable products based on non-Apple computers, that Apple will continue to develop and manufacture products suitable for the Company's existing and future markets or that the Company will be able to secure an adequate supply of Apple computers, the occurrence of any of which could have a material adverse effect on the Company's business and results of operations.

In addition, Apple has adopted the PCI bus standard for data transfer for its computers. The Company believes certain of its prospects and customers have delayed purchases or have purchased PCI-based systems from competing vendors. The Company began shipping Media Composer products based on the PCI bus standard in March 1996 and began shipping Pro Tools products based on the PCI bus in May of 1996. Any difficulty or delay by third-party developers in developing applications for use on PCI bus based Pro Tools products, any failure of the Pro Tools or Media Composer PCI bus products to obtain market acceptance, the delay or deferral of customer purchase decisions, the cost of any additional upgrade programs to PCI bus that have been or may be implemented by the Company, or the inability of the Company to secure an adequate supply of PCI-compatible video processor boards to include in its systems could have a material adverse effect on the Company's business and results of operations.

The Company has from time to time developed new products, or upgraded existing products that incorporate advances in enabling technologies such as PCI bus. The Company believes that further advances will occur in bus architectures and other enabling technologies, such as microprocessors, computers, operating systems, storage devices and digital media formats. The Company may be required, based on market demand, to upgrade existing products or develop other products that incorporate these further advances. In particular, the Company believes that it will be necessary to develop additional products which operate using the Windows NT operating system. There can be no assurance that the Company will be successful in developing NT-based or other new products, or that they will gain market acceptance, if developed. Any failure to develop such products in a timely way or to gain market acceptance for them could have a material adverse effect on the Company's business and results of operations.

The Company has experienced a period of rapid growth, which has placed a significant strain on its resources. The Company has in the past experienced

personnel transitions among its senior managers and expects transitions from time to time in the future as the Company's organizational structure continues to evolve. In addition, many of the Company's senior management and other key employees have not had experience in managing organizations of the Company's size or larger. To manage effectively any future growth, the Company will be required to continue to improve its operational and financial systems and to expand, train and manage its employee base. Since the beginning of 1996, the Company has incurred a higher rate of employee turnover than in prior years. The loss of key employees, any delay or failure in attracting new employees or any failure by the Company to manage any future growth effectively could have a material adverse effect on the Company's business.

The Company is dependent upon sole source suppliers for certain key components used in its products. Products purchased by the Company from sole source vendors include computers from Apple and SGI; video compression chips manufactured by C-Cube Microsystems; a small computer systems interface ("SCSI") accelerator board from ATTO Technology; a 3D digital video effects board from Pinnacle Systems; certain storage devices from Ciprico, Inc. and an application specific integrated circuit ("ASIC") from AMI. The Company purchases these sole source components pursuant to purchase orders placed from time to time. The Company generally does not carry significant inventories of these sole source components and has no guaranteed supply arrangements. These purchasing arrangements can result in delays in obtaining products from time to time. No assurance can be given that sole source suppliers will devote the resources necessary to support the enhancement or continued availability of such components or that any such supplier will not encounter financial difficulties. While the Company believes that alternative sources of supply for its sole source components could be developed, its business and results of operations could be materially adversely affected if it were to encounter an interruption in its sources of supply.

The markets for digital media editing and production systems are intensely competitive and subject to rapid change. The Company encounters competition in the film, video and audio production and post-production, television broadcast news and multimedia tools markets, including the corporate and industrial user market. Many current and potential competitors of the Company have substantially greater financial, technical and marketing resources than the Company. Such competitors may use these resources to lower their product costs and thus be able to lower prices to levels at which the Company could not operate profitably. Further, such competitors may be able to develop products comparable or superior to those of the Company or adapt more quickly than the Company to new technologies or evolving customer requirements. Accordingly, there can be no assurance that the Company will be able to compete effectively in its target markets or that future competition will not adversely affect its business and results of operations.

The Company is converting its core information systems to a new system developed by Systems, Applications and Products ("SAP"). Any difficulties in this system conversion could delay the shipment of orders, the release of invoices or collection of receivables which could have an adverse effect on the Company's operations and cash flows.

The Company is involved in various legal proceedings, including patent and securities fraud litigation, an adverse resolution of any such proceedings could have a material adverse effect on the Company's business and results of operations. See Note 8 to Condensed Consolidated Financial Statements (unaudited). This litigation has been discussed in previously filed reports on Forms 10-Q and 10-K.

PART II. OTHER INFORMATION  
ITEM 1. LEGAL PROCEEDINGS

OTHER

The Company has also received inquiries with regard to possible patent infringement claims in addition to those which have been specifically disclosed by the Company. These inquiries are referred to patent counsel. If any infringements are determined to exist, the Company may seek licenses or settlements. In addition, from time to time as a normal incidence of the nature of the Company's business, various claims, charges and litigation are asserted or commenced against the Company arising from or related to contractual or employee relations or product performance. Management does not believe these claims would have a material adverse effect on the financial position or results of operations of the Company.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS.

- 10.1 Employment agreement between the Company and William J. Miller.
- 10.2 Employment agreement between the Company and William L. Flaherty.
- 10.3 Employment agreement between the Company and Clifford Jenks.
- 27 Financial Data Schedule

(b) REPORTS ON FORM 8-K. For the fiscal quarter ended September 30, 1996 the Company filed no Current Reports on Form 8-K.



## SIGNATURES

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

Avid Technology, Inc.

Date: November 14, 1996

By: /S/ WILLIAM L. FLAHERTY

William L. Flaherty,  
Vice President of Finance and

Chief Financial Officer  
(Principal Financial and Accounting Officer)

## EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
10.1	Employment agreement between the Company and William J. Miller.
10.2	Employment agreement between the Company and William L. Flaherty.
10.3	Employment agreement between the Company and Clifford Jenks.
27	Financial Data Schedule

Mr. William Miller  
April 3, 1996  
Page

AVID TECHNOLOGY, INC.

April 3, 1996

Mr. William J. Miller  
360 Bachman  
Los Gatos, CA 95030

Dear Bill:

This letter is to extend to you an offer to become the Chief Executive Officer and Chairman of the Board of Avid Technology, Inc. ("Avid"), upon the following terms:

1.Position. Upon acceptance of Avid's offer, you will become the Chief Executive Officer and Chairman of the Board of Avid and devote your full business time and efforts to the business of Avid, provided that until September 30, 1996 you may provide up to one day per month of consulting services for your prior employer.

2.Base Salary. You shall be paid a base salary at the rate of \$375,000 per annum, subject to annual review by the Board of Directors after fiscal 1996.

3.Bonus. Avid shall pay to you a performance bonus for the year ending December 31, 1996 at the discretion of the Board of Directors. Assuming satisfaction of your performance objectives for such year, your bonus potential for fiscal 1996 shall be in the range of 50-80% of your base salary. For subsequent years, your bonus will be based on an executive compensation plan that you will have the responsibility for developing and submitting to the Board of Directors for approval.

4.Benefits and Vacation. You shall be entitled to participate in all benefit programs that Avid establishes and makes available to its employees. You shall be entitled to four (4) weeks paid vacation per year.

5.Options.

(a) Upon your acceptance of this letter, Avid shall grant to you options for 200,000 shares of its Common Stock under its 1994 Stock Option Plan at an exercise price equal to the last reported sale price of the Common Stock on the business day preceding the day on which you accept this letter. Such option shall become exercisable, depending on your continued employment with Avid, at the rate of 25% at the end of 12 months and 6.25% at the end of each three-month period thereafter, provided that the vesting of such option shall accelerate in the event of any sale of the business of Avid by merger, acquisition of assets or other form or reorganization. Such options shall be "incentive stock options" to the extent permitted by the Internal Revenue Code, and the balance shall be non-qualified options.

(b) In addition, upon your acceptance of this letter, Avid shall grant to you an option for 50,000 shares of Common Stock, at an exercise price determined in accordance with paragraph (a) above, vesting on the eighth anniversary of the date of grant if you are employed by Avid on such date. However, these options shall become immediately vested and exercisable if the last reported sales price of Avid Common Stock on the Nasdaq National Market (or a national securities exchange) is at least \$50 per share (adjusted for stock splits and similar events) for 20 consecutive trading days prior to September 30, 1998.

6. Relocation.

(a) Avid shall reimburse you for reasonable moving and travel expenses incurred by you in moving to Massachusetts, including the expense of moving one horse, as well as real estate brokerage fees, mortgage recording fees, transfer and documentary taxes, recording fees, title insurance fees, property inspection

costs, termite inspection costs, home protection plans, escrow charges, legal fees and similar out-of-pocket expenses incurred in selling your house in California and purchasing a residence in the Massachusetts area.

(b) Avid shall also reimburse you for the rental payments for temporary housing in Massachusetts for up to six months until you are able to secure permanent housing in the Massachusetts area.

(c) At your request, within 90 days of this Agreement, Avid shall purchase or cause to be purchased your home at 360 Bachman Street, Los Gatos, California for a purchase price equal to your cost (approximately \$610,000) or such higher appraised fair value as may be approved by Mr. Robert Halperin in his absolute discretion. Such purchase shall be made to enable you to begin employment at Avid immediately and to enable you to devote full time to Avid without the discretion of managing the sale of your home in California.

7. Severance. If Avid terminates your employment without Cause, or if you voluntarily terminate your employment for Good Reason, (i) the option described in paragraph 5(a) shall become vested and exercisable to the extent that such option would have become vested and exercisable if you had remained in the employ of Avid for an additional twelve months, and such options may be exercised until the end of the period during which you are receiving severance payments under this Agreement, and (ii) Avid shall pay to you, in equal monthly installments, a severance amount equal to your annual base salary at the time of termination; provided that if such termination occurs prior to the second anniversary of the commencement of your employment, Avid shall also pay to you, during the second 12-month period following termination, on a monthly basis, the amount by which your monthly base salary at the time of termination exceeds your monthly compensation from your new employer. During such severance period (12 or 24 months as applicable), you shall be entitled to continuation of health insurance and other fringe benefits until you find other employment, and if you do not find employment in Massachusetts you shall be reimbursed for relocation expenses back to California or Minnesota as you may elect. "Cause" shall mean willful misconduct, gross negligence or any crime involving moral turpitude. "Good Reason" shall mean a significant diminution in your duties or responsibilities or any acquisition of Avid that results in your no longer serving as CEO of an independent public company.

8. Non-Compete. While you are employed by Avid and for a period of one year after the termination of your employment, you shall not, directly or indirectly, (i) engage in the business of developing, making or selling any product competitive with any product being developed, made or sold by Avid while you were employed by Avid or (ii) recruit or solicit any employee of Avid to leave Avid.

9. Indemnification. The indemnification provided to you by Avid as an officer and director shall continue after termination of your employment for all acts occurring during the period of your employment.

10. Invention and Non-Disclosure Agreement. You shall sign Avid's standard Invention and Non-Disclosure Agreement.

This offer of employment will remain open until 6:00 p.m., E.S.T. on April 8, 1996. To accept this offer, please sign in the appropriate space below, whereupon this letter shall become a binding agreement between Avid and you.

We look forward to your joining Avid.

Sincerely,

Avid Technology, Inc.

By: /s/ William S. Kaiser  
William S. Kaiser  
Chairman of the Board

Accepted:

/S/ William J. Miller

William J. Miller

Dated: April \_\_, 1996

August 21, 1996

William L. Flaherty  
11 Coburn Road  
Weston, MA 02193

Dear Bill:

I am pleased to offer you the position of Vice President and Chief Financial Officer, responsible for Finance and Treasury, MIS, Legal, and Investor Relations, reporting to me.

#### SALARY

Your salary will be paid twice a month at a rate of ten thousand four hundred and sixteen dollars and sixty-seven cents (\$10,416.67 semimonthly; \$250,000.08 annualized). The initial pay period will be calculated based upon actual days worked.

#### INCENTIVE COMPENSATION

You will be eligible to participate in Avid's Executive Variable Compensation Program. Your target for 1996 will be 60% at plan (pro-rated for that portion of the fiscal year actually worked) which is based on the corporation achieving its R.O.I. objectives. Your bonus for 1996 will be guaranteed in the amount of 20% of your annualized salary, or \$50,000. Your total targeted cash compensation is thus \$400,000 on an annualized basis. This will be reviewed in January as part of our Executive Officer salary review.

#### STOCK OPTIONS

In addition, you will be issued, upon hire, an Incentive Stock Option, to the extent permitted by the Internal Revenue Code, and the balance shall be non-qualified options (both with vesting over a four year period, and an expiration of ten years) under Avid's 1995 Incentive Stock Option Plan for fifty thousand (50,000) shares of Avid Technology, Inc. Common Stock. The shares will be priced at the NASDAQ closing price on the Monday of the week in which you start work at Avid.

#### SIGNING BONUS

Avid will also provide you with a thirty thousand dollar (\$30,000) signing bonus, which will be paid to you in your initial paycheck.

#### SEVERANCE AND CHANGE IN CONTROL

In the event of any sale of the business by merger, acquisition of assets, or other form of reorganization, the vesting of your initial stock option grant will be fully accelerated.

If Avid voluntarily terminates your employment without Cause, or if you voluntarily terminate your employment for Good Reason, (i) your initial stock option grant shall become vested and exercisable to the extent that such option would have become vested and exercisable if you had remained in the employ of Avid for an additional twelve months, and such options may be exercised until the end of the period during which you are receiving severance payments under this Agreement, and (ii) Avid shall pay you, in equal semi-monthly installments, a severance amount equal to your annual base salary at the time of termination; PROVIDED that if such termination occurs prior to the end of your second anniversary of the commencement of your employment, Avid shall also pay to you, during the second 12-month period following termination, on a semi-monthly basis, the amount by which your monthly base salary at the time of termination exceeds your monthly compensation from your new employer. During such severance period (12 or 24 months as applicable), you shall be entitled to continuation of health insurance and other fringe benefits, as permissible per plan provisions, until you find other employment. "Cause" shall mean willful misconduct, gross negligence or any crime involving moral turpitude. "Good Reason" shall mean a significant diminution in your duties or responsibilities or any acquisition of Avid that results in your no longer serving as CFO of an independent public company.

## REVIEW OF PRESS RELEASE

You will have the right to review any press announcement, before it is released, which mentions your being appointed VP and CFO of Avid.

## BENEFITS

Avid offers four weeks of paid vacation and ten paid holidays per year. The Company contributes 75% of the premium cost for medical, dental and vision coverage and 100% of the costs for life insurance (in the amount of two times your annual salary) and long term disability insurance. Additionally you will be eligible to participate in Avid's 401(k) Plan on the next enrollment date following your first three months of employment. A benefits summary is enclosed. Please call Kelli Boyle in our Human Resources department for more details. Kelli can be reached at (508) 640-3297. Detailed documentation will be provided on these benefits upon commencement of employment.

This offer is subject to our satisfactory review of all of your prior employment agreements for "non-compete" clauses under which you may be restricted in working for Avid and upon your furnishing proof that you are authorized for employment in the USA. All Avid employees are required to sign an Avid nondisclosure agreement upon acceptance and/or commencement of employment. You will also be required to complete an Immigration Department I-9 form for which you will need to bring certain documentation with you to Avid. A copy of both of these forms is enclosed for your review only; do not complete these documents until you meet with Human Resources. Please call if you have questions.

All of us at Avid look forward to welcoming you and I am confident of your potential as a valued and respected member of Avid's senior management team. Please confirm your acceptance of this employment offer by signing below and returning one of the original two copies of this letter (in the enclosed self-addressed envelope or hand carried) to Judith Oppenheim (MARKED CONFIDENTIAL).

Acceptance of this offer does not constitute an employment agreement and this letter is not to be construed as a guarantee of employment by the Company for any specific period or length of time.

If you have any questions regarding the position, please do not hesitate to contact me.

Sincerely,

/s/ W.J. Miller

William Miller  
Chairman and Chief Executive Officer

/jdc  
Enclosures

ACCEPTED:      /s/ William L. Flaherty      DATE: Aug. 21, 1996

START DATE:    No later than September 16, 1996

October 3, 1996

Cliff Jenks  
660 Circle Lane  
Lake Forest, IL 60045

Dear Cliff:

I am pleased to offer you the position of Vice President of Sales and Marketing for Avid, reporting to me. The components of your offer are as follows:

#### SALARY

Your salary will be paid twice a month at a rate of eleven thousand four hundred and fifty-eight dollars and thirty-four cents (\$11,458.34 semimonthly; \$275,000.16 annualized). The initial pay period will be calculated based upon actual days worked.

#### INCENTIVE COMPENSATION

You will be eligible to participate in Avid's Executive Variable Compensation Program. Your targeted incentive will be 50% at achievement of plan (pro-rated for that portion of the fiscal year actually worked), which is based on the corporation achieving its R.O.I. objectives. Your payout for 1996 will be guaranteed at your targeted annualized rate of 50% for the remainder of the year, pro-rated for that portion of the year actually worked. Your total targeted cash compensation is thus \$412,500 on an annualized basis. This will be reviewed in January as part of our Executive Officer salary review.

#### STOCK OPTIONS

In addition, you will be issued, upon hire, an Incentive Stock Option, to the extent permitted by the Internal Revenue Code, and the balance shall be non-qualified options (both with vesting over a four year period, and an expiration of ten years) under Avid's 1995 Incentive Stock Option Plan for seventy-five thousand (75,000) shares of Avid Technology, Inc. Common Stock. The shares will be priced at the NASDAQ closing price on the day which you start work at Avid.

#### SIGNING BONUS

Avid will also provide you with a thirty thousand dollar (\$30,000) signing bonus, which will be paid to you in your initial paycheck.

#### RELOCATION

Avid will provide you full relocation, per our Executive Relocation Policy. A copy of this policy will be sent to you with your hard copy offer letter.

#### BENEFITS

Avid offers four weeks of paid vacation and ten paid holidays per year. The Company contributes 75% of the premium cost for medical, dental and vision coverage and 100% of the costs for life insurance (in the amount of two times your annual salary) and long term disability insurance. Additionally you will be eligible to participate in Avid's 401(k) Plan on the next enrollment date following your first three months of employment. A benefits summary is enclosed. Please call Kelli Boyle in our Human Resources department for more details. Kelli can be reached at (508) 640-3297. Detailed documentation will be provided on these benefits upon commencement of employment.

This offer is subject to our satisfactory review of all of your prior employment agreements for "non-compete" clauses under which you may be restricted in working for Avid and upon your furnishing proof that you are authorized for employment in the USA. All Avid employees are required to sign an Avid nondisclosure agreement upon acceptance and/or commencement of employment. You will also be required to complete an Immigration Department I-9 form for which you will need to bring certain documentation with you to Avid. A copy of both of

these forms is enclosed for your review only; do not complete these documents until you meet with Human Resources. Please call if you have questions.

All of us at Avid look forward to welcoming you and I am confident of your potential as a valued and respected member of Avid's senior management team. Please confirm your acceptance of this employment offer by signing below and returning one of the original two copies of this letter (in the enclosed self-addressed envelope or hand carried) to Judith Oppenheim (MARKED CONFIDENTIAL).

Acceptance of this offer does not constitute an employment agreement and this letter is not to be construed as a guarantee of employment by the Company for any specific period or length of time.

If you have any questions regarding the position, please do not hesitate to contact me.

Sincerely,

/s/ W.J. Miller

William Miller  
Chairman and Chief Executive Officer

/jdc  
Enclosures

ACCEPTED:        /s/ C.A. Jenks                      DATE: 10-7-96

START DATE: 10-7-96

Addendum to Offer Letter dated October 3, 1996

#### SEVERANCE AGREEMENT

If Avid voluntarily terminates your employment without Cause, or if you voluntarily terminate your employment for Good Reason, (i) your initial stock option grant shall become vested and exercisable to the extent that such option would have become vested and exercisable if you had remained in the employ of Avid for an additional twelve months, and such options may be exercised until the end of the period during which you are receiving severance payments under this Agreement, and (ii) Avid shall pay you, in equal semi-monthly installments, a severance amount equal to your annual base salary at the time of termination; PROVIDED that if such termination occurs prior to the end of your second anniversary of the commencement of your employment, Avid shall also pay to you, during the second 12-month period following termination, on a semi-monthly basis, the amount by which your monthly base salary at the time of termination exceeds your monthly compensation from your new employer. During such severance period (12 or 24 months as applicable), you shall be entitled to continuation of health insurance and other fringe benefits, as permissible per plan provisions, until you find other employment. "Cause" shall mean willful misconduct, gross negligence or any crime involving moral turpitude. "Good Reason" shall mean a significant diminution in your duties or responsibilities or any acquisition of Avid that results in your no longer serving as VP of Sales and Marketing of an independent public company.





THIS SCHEDULE CONTAINS SUMMARY INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET ON THE FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 30, 1996 AND THE CONDENSED CONSOLIDATED STATEMENT OF INCOME AS FILED ON FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 30, 1996 (UNAUDITED) AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1000

9-MOS

DEC-31-1996

JAN-01-1996

SEP-30-1996

72,986

2,663

88,621

5,058

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