

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

November 12, 1998

OFIS Filer Support
SEC Operations Center
6432 General Green Way
Alexandria, VA 22312-2413

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, 1998.

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

Very truly yours,

/s/Frederic G. Hammond

Frederic G. Hammond
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, 1998

Commission File Number 0-21174

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

04-2977748
(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: (978) 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 9, 1998 was 24,499,653.

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AVID TECHNOLOGY, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1998

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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,	
	1998 (unaudited)	1997 (unaudited)	1998 (unaudited)	1997 (unaudited)
Net revenues	\$ 116,185	\$ 116,510	\$ 337,779	\$ 347,602
Cost of revenues	45,929	51,606	135,993	167,491
Gross profit	70,256	64,904	201,786	180,111
Operating expenses:				
Research and development	22,757	18,598	63,685	53,310
Marketing and selling	30,967	30,109	89,245	89,094
General and administrative	6,902	6,734	19,931	18,830
Nonrecurring costs	193,741		193,741	
Amortization of acquired intangible assets	4,350		4,350	
Total operating expenses	258,717	55,441	370,952	161,234
Operating income (loss)	(188,461)	9,463	(169,166)	18,877
Interest and other income, net	2,016	2,596	7,266	5,882
Income (loss) before income taxes	(186,445)	12,059	(161,900)	24,759
Provision for (benefit from) income taxes	(42,105)	3,231	(34,497)	7,675
Net income (loss)	(\$144,340)	\$8,828	(\$127,403)	\$17,084
Net income (loss) per common share - basic	(\$5.97)	\$0.37	(\$5.45)	\$0.75
Net income (loss) per common share - diluted	(\$5.97)	\$0.34	(\$5.45)	\$0.72
Weighted average common shares outstanding - basic	24,190	23,912	23,396	22,875
Weighted average common shares outstanding - diluted	24,190	25,747	23,396	23,857

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

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

	September 30, 1998	December 31, 1997
	----- (unaudited)	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$60,643	\$108,308
Marketable securities	37,699	78,654
Accounts receivable, net of allowances of \$7,923 and \$7,529 in 1998 and 1997, respectively	73,760	79,773
Inventories	12,059	9,842
Deferred tax assets	16,975	17,160
Prepaid expenses	6,823	4,645
Other current assets	5,412	2,700
	-----	-----
Total current assets	213,371	301,082
Property and equipment, net	36,848	38,917
Long-term deferred tax assets	50,764	14,820
Acquired intangible assets	52,034	
Other assets	2,878	1,986
	-----	-----
Total assets	\$355,895	\$356,805
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$17,586	\$22,166
Current portion of long-term debt	562	783
Accrued compensation and benefits	23,293	23,737
Accrued expenses	33,187	30,249
Income taxes payable	15,758	11,210
Deferred revenues	21,623	26,463
	-----	-----
Total current liabilities	112,009	114,608
Long-term debt, less current portion	7,622	403
Purchase consideration	64,883	
Commitments and contingencies		
Stockholders' equity:		
Preferred stock		
Common stock	265	242
Additional paid-in capital	344,582	252,307
Retained earnings (accumulated deficit)	(108,433)	27,286
Treasury stock	(59,543)	(27,548)
Deferred compensation	(4,308)	(8,034)
Cumulative translation adjustment	(1,254)	(2,472)
Net unrealized gains on marketable securities	72	13
	-----	-----
Total stockholders' equity	171,381	241,794
	-----	-----
Total liabilities and stockholders' equity	\$355,895	\$356,805
	=====	=====

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,	
	1998	1997
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	(\$127,403)	\$17,084
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Charge for acquired in-process research and development, net of tax benefit	149,374	
Depreciation and amortization	20,585	19,893
Compensation from stock grants and options	3,531	
Provision for doubtful accounts	1,407	1,464
Changes in deferred tax assets	224	(151)
Tax benefit of stock option exercises		2,394
(Gain) loss on disposal of equipment	(605)	218
Changes in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	13,174	90
Inventories	(1,922)	11,813
Prepaid expenses and other current assets	(3,493)	(108)
Accounts payable	(5,837)	(1,259)
Income taxes payable	4,518	6,824
Accrued expenses, compensation and benefits	(5,945)	18,962
Deferred revenues	(6,491)	759
NET CASH PROVIDED BY OPERATING ACTIVITIES	41,117	77,983
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment and other assets	(12,462)	(12,033)
Acquisition of business, net of cash acquired (Notes 3 and 4)	(78,416)	
Capitalized software development costs	(20)	(107)
Proceeds from disposal of equipment	1,306	1,554
Purchases of marketable securities	(128,759)	(102,193)
Proceeds from sales of marketable securities	169,774	51,341
NET CASH USED IN INVESTING ACTIVITIES	(48,577)	(61,438)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of long-term debt	(521)	(1,593)
Purchase of common stock for treasury	(51,144)	
Proceeds from issuance of common stock	10,859	25,821
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(40,806)	24,228
Effects of exchange rate changes on cash and cash equivalents	601	(864)
Net increase (decrease) in cash and cash equivalents	(47,665)	39,909
Cash and cash equivalents at beginning of period	108,308	75,795
Cash and cash equivalents at end of period	\$60,643	\$115,704

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 ("Avid" or "the Company"). 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 for the year ended December 31, 1997 on Form 10-K which included all information and footnotes necessary for such presentation.

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.

2. NET INCOME (LOSS) PER COMMON SHARE

The Company computes basic and diluted earnings per share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"). The following tables reconcile the numerator and denominator of the basic and diluted earnings per share computations shown on the Condensed Consolidated Statements of Operations:

(in thousands, except per share data)

	For the Three Months Ended September 30,	
	1998	1997
Basic EPS		
Numerator:		
Net income (loss)	(\$144,340)	\$8,828
Denominator:		
Weighted common shares outstanding	24,190	23,912
Basic EPS	(\$5.97)	\$0.37
	=====	=====
Diluted EPS		
Numerator:		
Net income (loss)	(\$144,340)	\$8,828
Denominator:		
Weighted common shares outstanding	24,190	23,912
Weighted common stock equivalents	-	1,835
	-----	-----
	24,190	25,747
Diluted EPS	(\$5.97)	\$0.34
	=====	=====

Options to purchase 2,285,526 weighted shares of common stock outstanding at September 30, 1998 were excluded from the calculation of diluted earnings per share because their inclusion would be anti-dilutive. Options to purchase 57,855 weighted shares of common stock outstanding at September 30, 1997, were excluded from the calculation of diluted earnings per share because the exercise prices of those options exceeded the average market price of common stock for the three-month period ended September 30, 1997.

(in thousands, except per share data)

For the Nine Months Ended
September 30,

	1998	1997
Basic EPS		
Numerator:		
Net income (loss)	(\$127,403)	\$17,084
Denominator:		
Weighted common shares outstanding	23,396	22,875
Basic EPS	(\$5.45)	\$0.75
	=====	=====
Diluted EPS		
Numerator:		
Net income (loss)	(\$127,403)	\$17,084
Denominator:		
Weighted common shares outstanding	23,396	22,875
Weighted common stock equivalents	-	982
	-----	-----
Diluted EPS	(\$5.45)	\$0.72
	=====	=====

Options to purchase 1,912,090 weighted shares of common stock outstanding at September 30, 1998 were excluded from the calculation of diluted earnings per share because their inclusion would be anti-dilutive. Options to purchase 302,195 weighted shares of common stock outstanding at September 30, 1997, were excluded from the calculation of diluted earnings per share because the exercise prices of those options exceeded the average market price of common stock for the nine-month period ended September 30, 1997.

3. ACQUISITION OF SOFTIMAGE

On August 3, 1998, the Company acquired from Microsoft Corporation ("Microsoft") the common stock of Softimage Inc. ("Softimage") and certain assets relating to the business of Softimage. In connection with the acquisition, Avid paid \$79.0 million in cash to Microsoft and issued to Microsoft (i) a subordinated note (the "Note") in the amount of \$5 million, due June 2003, (ii) 2,394,813 shares of common stock, valued at \$64.0 million, and (iii) a ten-year warrant to purchase 1,155,235 shares of common stock at an exercise price of \$47.65 per share, valued at \$26.2 million. In addition, Avid agreed to issue to Softimage employees 40,706 shares of common stock, valued at \$1.5 million, as well as stock options with a nominal exercise price to purchase up to 1,820,817 shares of common stock, valued at \$68.2 million ("Avid Options"). Avid also incurred fees of \$4.0 million in connection with the transaction. Per terms of the agreements, shares of common stock issued to Microsoft and the underlying warrant may not be traded until August 3, 2001. Additionally, the principal amount of the Note will be increased by \$39.71 for each share underlying forfeited Avid Options. The value of the Avid Options has been recorded on the balance sheet as Purchase Consideration. As the underlying options either become vested or are forfeited by employees, additional paid-in capital or the Note, respectively, will be increased and Purchase Consideration will be reduced.

The acquisition was accounted for under the purchase method of accounting. Accordingly, the results of operations of Softimage and the fair market value of the acquired assets and assumed liabilities have been included in the financial statements of the Company as of the acquisition date. The purchase price was allocated to the acquired assets and assumed liabilities as follows (in thousands):

Working capital, net	\$2,448
Property and equipment	3,505
Completed technologies	44,772
In-process research and development	193,741
Work force	7,644
Tradename	4,172
Deferred tax liability	(8,422)

	\$247,860
	=====

The amounts allocated to tangible and intangible assets, including acquired in-process research and development, were based on results of an independent appraisal. Acquired in-process research and development represented development

projects in areas that had not reached technological feasibility and had no alternative future use. Accordingly, the amount of \$193.7 million was charged to operations at the date of the acquisition, net of the related tax benefit of \$44.4 million. The amounts allocated to completed technologies, work force, and tradename are being amortized on a straight-line basis over expected useful lives of two and three years. The values of completed technologies and in-process research and development were determined using a risk-adjusted, discounted cash flow approach. The value of in-process research and development, specifically, was determined by estimating the costs to develop the in-process projects into commercially viable products, estimating the resulting net cash flows from such projects, and discounting the net cash flows back to their present values. The evaluation considered the inherent difficulties and uncertainties in completing the development projects and the risks related to the viability of and potential changes in future target markets.

In-process research and development projects identified at the acquisition date include next-generation three-dimensional modeling, animation and rendering software; new graphic, film and media management capabilities for effects-intensive, on-line finishing applications for editing; and new editing technology architectures to support collaborative work groups. The nature of the efforts to develop the purchased in-process technology into commercially viable products principally relate to (i) completion of the animation and real-time playback architecture, completion and integration of architectural software components, validation of the resulting architecture, and finalization of the feature set; (ii) the rewriting of software code of the compositing engine to accommodate significant new features, the rewriting of software code of the titling component, and the rebuilding of the framework architecture; and (iii) the design of a new architecture to support simultaneous and synchronized access to projects and media data. If these projects are not successfully developed, the sales and profitability of the Company may be adversely affected in future periods.

No assets related to tax credits and carryforwards of Softimage were recorded at the acquisition date due to the uncertainty of their realization. If any benefit of these tax credits and carryforwards is realized in the future, the non-current assets recorded upon the acquisition will be reduced at that time by a corresponding amount, before any benefit is recognized in the statement of operations.

Accumulated amortization associated with acquired intangible assets totaled \$4.4 million at September 30, 1998. During the quarter ended September 30, 1998, the Purchase Consideration recorded for the value of Avid Options was reduced by approximately \$3.3 million, resulting from increases to the Note of approximately \$2.5 million for forfeited options and by increases to additional paid-in capital of approximately \$0.8 million for options which became vested.

The following table presents unaudited pro forma information as if Avid and Softimage had been combined as of the beginning of the periods presented. The pro forma data are presented for illustrative purposes only and are not necessarily indicative of the combined financial position or results of operations of future periods or the results that actually would have resulted had Avid and Softimage been a combined company during the specified periods. The pro forma results include the effects of the purchase price allocation on amortization of acquired intangible assets and exclude the acquisition-related charge for the purchased in-process technology and related tax benefit.

	Pro Forma Unaudited (in thousands, except per share amounts) For the Nine Months Ended September 30, 1998		1997
	-----	-----	-----
Net revenue	\$360,784	\$377,060	
	=====	=====	
Net income (loss)	\$5,714	(\$5,920)	
	=====	=====	
Net income (loss) per common share - basic	\$0.23	(\$0.23)	
	=====	=====	
Net income (loss) per common share - diluted	\$0.20	(\$0.23)	
	=====	=====	
Weighted average common shares outstanding - basic	25,305	25,310	
	=====	=====	
Weighted average common shares outstanding - diluted	28,591	25,310	

4. SUPPLEMENTAL CASH FLOW INFORMATION

The following table reflects supplemental cash flow investing activities related to the Softimage acquisition.

	Nine Months Ended September 30, 1998

Fair value of:	
Assets acquired	\$262,709
Liabilities assumed	(18,850)
Debt, common stock, stock options and warrant issued	(164,859)

Cash paid	79,000
Less: cash acquired	(584)

Net cash paid for acquisition	\$78,416
	=====

5. INVENTORIES

Inventories consist of the following (in thousands):

	September 30, 1998	December 31, 1997
	-----	-----
Raw materials	\$7,488	\$5,488
Work in process	1,913	674
Finished goods	2,658	3,680
	-----	-----
	\$12,059	\$9,842
	=====	=====

6. PROPERTY AND EQUIPMENT, NET

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

	September 30, 1998	December 31, 1997
	-----	-----
Computer and video equipment	\$84,463	\$75,042
Office equipment	4,916	4,652
Furniture and fixtures	7,030	6,820
Leasehold improvements	14,233	13,105
	-----	-----
	110,642	99,619
Less accumulated depreciation and amortization	73,794	60,702
	-----	-----
	\$36,848	\$38,917
	=====	=====

7. LINE OF CREDIT

The Company has an unsecured line of credit with a group of banks, which provides for up to \$35.0 million in revolving credit. The line of credit agreement was renewed on June 30, 1998 to expire on June 29, 1999 and certain covenants were subsequently amended as of September 30, 1998. Under the terms of the agreement, the Company must pay an annual commitment fee of 1/4% of the average daily unused portion of the facility, payable quarterly in arrears. The Company has two loan options available under the agreement: the Base Rate Loan and the LIBOR Rate Loan. The interest rates to be paid on the outstanding borrowings for each loan annually are equal to the Base Rate or LIBOR plus 1.25%, respectively. Additionally, the Company is required to maintain certain financial ratios and is bound by covenants over the life of the agreement, including a restriction on the payment of dividends. The Company had no

borrowings against this facility during the nine-month period ended September 30, 1998.

8. LONG-TERM DEBT

In connection with the acquisition of Softimage, Avid issued a \$5 million subordinated note (the "Note"). The principal amount of the Note, including any adjustments due to Avid Options, plus all unpaid accrued interest is due on June 15, 2003. The Note bears interest at 9.5% per annum, payable quarterly. The interest rate of the Note will increase to 12.5% during any period of default in payment of principal or interest. Through September 30, 1998, the Note has been increased by approximately \$2.5 million for forfeited Avid Options.

9. CONTINGENCIES

On June 7, 1995, the Company filed a patent infringement complaint in the United States District Court for the District of Massachusetts against Data Translation, Inc., a Marlboro, Massachusetts-based company. Avid is seeking judgment against Data Translation that, among other things, Data Translation has willfully infringed Avid's patent number 5,045,940, entitled "Video/Audio Transmission System and Method." Avid is also seeking an award of treble damages together with prejudgment interest and costs, Avid's costs and reasonable attorneys' fees and an injunction to prohibit further infringement by Data Translation. The litigation has been dismissed without prejudice (with leave to refile) pending a decision by the U.S. Patent and Trademark Office on a reissue patent application based on the issued patent.

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 on motion by the Company. 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 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.

The Company also receives inquiries from time to time with regard to additional possible patent infringement claims. These inquiries are generally referred to counsel and are in various stages of discussion. If any infringement is 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 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.

10. CAPITAL STOCK

During June and July 1997, the Company granted 347,200 shares of \$.01 par value restricted common stock to certain employees under the 1997 Stock Incentive Plan approved by the shareholders on June 4, 1997. These shares vest annually in 20% increments beginning May 1, 1998. Accelerated vesting may occur if certain stock price performance goals established by the Board of Directors are met. On May 1, 1998, an additional 20% of the restricted stock became vested due to the attainment of specific stock performance goals. Unvested restricted shares are subject to forfeiture in the event that an employee ceases to be employed by the Company. The Company initially recorded, as a separate component of stockholders' equity, deferred compensation of approximately \$9.1 million with respect to this restricted stock. This deferred compensation represents the excess of fair value of the restricted shares at the date of the award over the purchase price and is recorded as compensation expense ratably as the shares vest.

On October 23, 1997, February 5, 1998, and October 21, 1998 the Company announced that the Board of Directors authorized the repurchase of up to 1.0 million, 1.5 million, and 2.0 million shares, respectively, of the Company's common stock. Purchases have been and will be made in the open market or in privately negotiated transactions. The Company has used and will continue to use any repurchased shares for its employee stock plans. As of December 31, 1997, the Company had repurchased a total of 1.0 million shares at a cost of \$28.8 million, which completed the program announced in October 1997. As of September 30, 1998, the Company had repurchased a total of 1.5 million shares of Avid

common stock at a cost of \$51.1 million, which completed the program announced during February 1998. These purchases under the program announced in February 1998, include the repurchase of 500,000 shares from Intel Corporation ("Intel"). Intel originally purchased 1,552,632 shares of Avid common stock in March 1997. Subsequent to September 30, 1998 through November 9, 1998, the Company repurchased approximately 176,000 additional shares of Avid common stock, under the program announced in October 1998, at a cost of \$4.1 million.

11. RECENT ACCOUNTING PRONOUNCEMENTS

On June 15, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities". SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair values. Changes in the fair values of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether or not a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction. SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999 (January 1, 2000 for the Company) and its adoption is not expected to have a material impact on the Company's financial position or results of operations.

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130 ("SFAS 130"), "Reporting Comprehensive Income". SFAS 130 requires the reporting of comprehensive income in addition to net income from operations. Comprehensive income is a more inclusive reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. The adoption of SFAS 130 had no impact on the Company's net income or stockholder's equity. Total comprehensive income (loss), net of taxes, was (\$143.6) million and \$9.5 million for the three-month period ended September 30, 1998 and 1997, respectively and (\$126.5) million and \$17.9 million for the nine-month period ended September 30, 1998 and 1997, respectively, which consists of net income, the net changes in foreign currency translation adjustment and the net unrealized gains and losses on available-for-sale securities.

In March 1998, Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), was issued which provides guidance on applying generally accepted accounting principles in addressing whether and under what condition the costs of internal-use software should be capitalized. SOP 98-1 is effective for transactions entered into in fiscal years beginning after December 15, 1998, however earlier adoption is encouraged. The Company adopted the guidelines of SOP 98-1 as of January 1, 1998, and the impact of such adoption was not material to results of operations or cash flows for the three- and nine-month periods ended September 30, 1998.

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."

Avid develops and provides digital film, video and audio editing and special effects software and hardware technologies to create media content for information and entertainment applications. Integrated with the Company's digital storage and networking solutions, Avid's products are used worldwide in film studios; video production and post-production facilities; network, independent and cable television stations; recording studios; advertising agencies; government and educational institutions; corporate communications departments; and by consumers.

In August 1998, the Company acquired the common stock of Softimage and certain assets related to the business of Softimage for total consideration of \$247.9 million. Softimage is a leading developer of three-dimensional ("3D") animation, video production, two-dimensional ("2D") cel animation (a cel used in cel animation consists of layers of two dimensional artwork which are changed on a frame by frame basis creating an illusion of motion) and compositing software solutions and technologies. The acquisition was recorded as a purchase and, accordingly, the results of operations of Softimage have been included in the Company's financial statements as of the acquisition date. The Company's results of operations for the three and nine months ended September 30, 1998 include a pre-tax charge \$193.7 million for the value of acquired in-process research and development and amortization of \$4.4 million for acquired intangible assets as a result of the acquisition.

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 decreased by \$325,000 (0.3%) to \$116.2 million in the quarter ended September 30, 1998 from \$116.5 million in the same quarter of last year. Net revenues for the nine months ended September 30, 1998 of \$337.8 million decreased by \$9.8 million (2.8%) from \$347.6 million for the nine months ended September 30, 1997. Revenues for the three months ended September 30, 1998 compared to the same period in 1997 reflected decreased sales of Media Composer and storage products. These decreases in revenues were largely offset by incremental Softimage business and increased sales of digital audio products. The decrease in net revenues for the nine months ended September 30, 1998 compared to the same period in 1997 reflected decreased sales of system upgrades, Media Composer products, Avid Cinema, and Broadcast products. These decreased revenues were offset in part by increased sales of MCXpress and Avid Xpress products, customer service, and incremental Softimage business. During the third quarter of 1998, the Company began shipments of Pro Tools/24 MIX products, version 1.6 of MCXpress, and Avid Marquee. Additionally, late in the third quarter 1998, the Company began shipping the NewsCutter DV product. To date, returns of all products have been immaterial.

The Company continues to shift an increasing proportion of its sales through indirect channels such as distributors and resellers. Net revenues derived through indirect channels were greater than 70% of net revenue for the three months ended September 30, 1998, compared to greater than 60% in the same period of last year.

International sales (sales to customers outside the U.S. and Canada) accounted for approximately 48% and 46% of the Company's third quarter 1998 and 1997 net revenues, respectively. International sales increased by 5.6% in the third quarter of 1998 compared to the same period in 1997. International sales accounted for approximately 48% of the Company's net revenues for the first nine months of 1998 and 1997, respectively. International sales decreased by 2.2% in the nine-month period ended September 30, 1998 from the same period in 1997. International revenues reflected sluggishness in the Asia Pacific region offset by increases in Europe. Additionally, revenue for the nine months was impacted adversely by the strengthening of the U.S. dollar against various currencies.

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; 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 increased to 60.5% in the third quarter of 1998 compared to 55.7% in the third quarter of 1997 and increased to 59.7% for the nine-month period ended September 30, 1998 from 51.8% for the same period in 1997. The increase during 1998 was primarily due to lower material costs, continued improvements in manufacturing efficiencies, and improved service margins. The Company currently expects that gross margins for the remainder of 1998 will approximate the results of the three most recent quarters.

Research and Development

Research and development expenses increased by \$4.2 million (22.4%) in the third quarter of 1998 compared to the same period in 1997 and increased \$10.4 million (19.5%) for the nine-month period ended September 30, 1998 compared to the same period of 1997. These increased expenditures were primarily due to two months of incremental Softimage costs as well as additions to the Company's engineering staffs for the continued development of new and existing products. Research and development expenses were 19.6% as a percentage of net revenues in the third quarter of 1998 compared to 16.0% in the same quarter of 1997 and were 18.9% compared to 15.3% for the nine-month periods ended September 30, 1998 and 1997, respectively. These increases were primarily due to the increases in research and development expenses noted above combined with lower revenues.

Marketing and Selling

Marketing and selling expenses increased by \$858,000 (2.8%) in the third quarter of 1998 compared to the same period in 1997 and increased by \$151,000 (0.2%) for the nine-month period ended September 30, 1998 compared to the same period in 1997. These increased expenditures in selling and marketing were primarily due to two months of incremental Softimage costs as well as an increase in marketing programs offset by ongoing savings in selling expenses as a result of the shift to an indirect sales model. Marketing and selling expenses were 26.7% as a percentage of net revenues in the third quarter of 1998 compared to 25.8% in the same quarter of 1997 and were 26.4% compared to 25.6% for the nine-month periods ended September 30, 1998 and 1997, respectively. These increases largely reflect the higher selling and marketing expenditures noted above combined with lower revenues.

General and Administrative

General and administrative expenses for the third quarter of 1998 increased by \$168,000 (2.5%) from the third quarter of 1997 and increased \$1.1 million (5.8%) for the nine-month period ended September 30, 1998, compared to the nine-month period ended September 30, 1997. The increase in general and administrative expenses for the three-month period ended September 30, 1998 compared to 1997 was primarily due to two months of incremental Softimage costs. The increase in general and administrative expenses for the nine-month period ended September 30, 1998 compared to 1997 was primarily due to two months of incremental Softimage costs. General and administrative expenses were 5.9% as a percentage of net revenues in the third quarter of 1998 compared to 5.8% in the third quarter of 1997 and were 5.9% for the nine-month period ended September 30, 1998 compared to 5.4% for the same period in 1997 primarily due to the incremental Softimage costs as well as lower revenues.

Nonrecurring Costs and Amortization of Acquired Intangible Assets

In connection with the August 1998 acquisition of the business of Softimage, the Company allocated \$193.7 million to in-process research and development and \$56.6 million to intangible assets consisting of completed technologies, work force and tradename. Acquired in-process research and development represented development projects in areas that had not reached technological feasibility and had no alternative future use. Accordingly, its value of \$193.7 million was expensed as of the acquisition date and is reflected as a nonrecurring charge to operations for the three and nine months ended September 30, 1998. Results for the three and nine months ended September 30, 1998 also reflect amortization of \$4.4 million associated with the acquired intangible assets and a tax benefit of \$44.4 million related to the charge for in-process research and development (see Note 3 to the Condensed Consolidated Financial Statements). Excluding the one-time charge, net of the related tax benefit, and the amortization associated with the acquisition, the Company would have reported net income of \$8.0 million or \$0.30 per diluted share and \$25.0 million or \$0.99 per diluted share for the

three and nine months ended September 30, 1998, respectively. Excluding only the one-time charge associated with acquired in-process research and development, net of the related tax benefit, the Company would have reported net income of \$5.0 million or \$0.19 per diluted share and \$22.0 million or \$0.87 per diluted share for the three and nine months ended September 30, 1998, respectively.

The amounts allocated to acquired tangible and intangible assets, including acquired in-process research and development, were based on results of an independent appraisal. The values of completed technologies and in-process research and development were determined using a risk-adjusted, discounted cash flow approach. The value of in-process research and development, specifically, was determined by estimating the costs to develop the in-process projects into commercially viable products, estimating the resulting net cash flows from such projects, and discounting the net cash flows back to their present values. The evaluation considered the inherent difficulties and uncertainties in completing the development projects and the risks related to the viability of and potential changes in future target markets.

In-process research and development projects identified at the acquisition date include next-generation three-dimensional modeling, animation and rendering software; new graphic, film and media management capabilities for effects-intensive, on-line finishing applications for editing; and new editing technology architectures to support collaborative work groups. The nature of the efforts to develop the purchased in-process technology into commercially viable products principally relate to (i) completion of the animation and real-time playback architecture, completion and integration of architectural software components, validation of the resulting architecture, and finalization of the feature set; (ii) the rewriting of software code of the compositing engine to accommodate significant new features, the rewriting of software code of the titling component, and the rebuilding of the framework architecture; and (iii) the design of a new architecture to support simultaneous and synchronized access to projects and media data. If these projects are not successfully developed, the sales and profitability of the Company may be adversely affected in future periods. The estimated costs to be incurred to complete the development of the in-process research and development projects total approximately \$23 million through the first half of 2000. The Company expects to begin to benefit from the purchased in-process research and development from the first half of 1999 through the first half of 2000.

Interest and Other Income, Net

Interest and other income, net consists primarily of interest income, other income and interest expense. Interest and other income, net for the third quarter in 1998 decreased \$580,000 as compared to the same period in 1997. For the nine-month period ended September 30, 1998 as compared to the same period in 1997, interest and other income, net increased \$1.4 million. The decrease in interest and other income for the three-month period ended September 30, 1998 compared to 1997 was primarily due to a decrease in investment balances. The increase in interest and other income for the nine-month period ended September 30, 1998 compared to 1997 was primarily due to higher investment balances.

Provision for (Benefit from) Income Taxes

The Company's effective tax rate was 22.6% and 21.3% for the three and nine months ended September 30, 1998 compared to 26.8% for the three months ended September 30, 1997 and 31% for the nine months ended September 30, 1997. The tax rate for the three and nine months ended September 30, 1998 includes a benefit of \$44.4 million related to the pre-tax charge of \$193.7 for the charge for in-process technology associated with the Company's acquisition of Softimage. A portion of the charge is not deductible for U.S. Federal tax purposes. Excluding the charge and related tax benefit, the Company's effective tax rate would have been 31% for the three and nine months ended September 30, 1998. The pro forma 1998 and actual 1997 effective tax rate of 31% is different from the Federal statutory rate of 35% due primarily to the Company's foreign subsidiaries, which are taxed in the aggregate at a lower rate, and the U.S. Federal Research Tax Credit. The effective tax rate of 26.8% for the three months ended September 30, 1997 reduced the year to date effective tax rate from 35% to 31% in the third quarter of 1997. This reduction was primarily due to the tax law change which extended the U.S. Federal Research Tax Credit for the full year as well as the relative levels of profit within the Company's foreign subsidiaries, which are taxed in the aggregate at a lower rate.

LIQUIDITY AND CAPITAL RESOURCES

The Company has funded its operations to date through both private and public sales of equity securities as well as through cash flows from operations. As of September 30, 1998, the Company's principal sources of liquidity included cash, cash equivalents and marketable securities totaling approximately \$98.3 million.

The Company's operating activities generated cash of \$41.1 million in the nine months ended September 30, 1998 compared to \$78.0 million in the nine months ended September 30, 1997. Cash was generated during the nine months ended September 30, 1998 primarily from net income after adjustment for the charge for in-process research and development in connection with the acquisition of Softimage as well as from collections of accounts receivable and increases in income taxes payable offset by decreases in accounts payable, accrued expenses and deferred revenue. In the nine months ended September 30, 1997, cash was generated primarily from net income as well as from increases in accrued expenses and income taxes payable and reductions in inventory.

The Company purchased \$12.5 million of property and equipment and other assets during the nine months ended September 30, 1998, compared to \$12.0 million in the same period in 1997. These purchases included primarily hardware and software for the Company's information systems and equipment to support research and development activities. The Company also utilized \$78.4 million, net of cash acquired, in the acquisition of Softimage.

The Company has an unsecured line of credit with a group of banks which provides for up to \$35.0 million in revolving credit. The line of credit agreement was renewed on June 30, 1998 to expire on June 29, 1999 and certain covenants were subsequently amended on September 30, 1998. Under the terms of the agreement, the Company must pay an annual commitment fee of 1/4% of the average daily unused portion of the facility, payable quarterly in arrears. The Company has two loan options available under the agreement: the Base Rate Loan and the LIBOR Rate Loan. The interest rates to be paid on the outstanding borrowings for each loan annually are equal to the Base Rate or LIBOR plus 1.25%, respectively. Additionally, the Company is required to maintain certain financial ratios and is bound by 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, 1998. The Company believes existing cash and 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 and investments in product development, at least through the next twelve months. In the event the Company requires additional financing, the Company believes that it would be able to obtain such financing; however, there can be no assurance that it would be successful in doing so, or that it could do so on terms favorable to the Company.

On October 23, 1997, February 5, 1998, and October 21, 1998 the Company announced that the Board of Directors authorized the repurchase of up to 1.0 million, 1.5 million shares, and 2.0 million, respectively, of the Company's common stock. Purchases have been and will be made in the open market or in privately negotiated transactions. The Company has used and will continue to use any repurchased shares for its employee stock plans. As of December 31, 1997, the Company had repurchased a total of 1.0 million shares at a cost of approximately \$28.8 million, which completed the program announced in October 1997. As of September 30, 1998, the Company had repurchased a total of 1.5 million shares at a cost of approximately \$51.1 million, which completed the program announced in February 1998. These purchases under the program announced in February 1998 include the repurchase of 500,000 shares of Avid common stock from Intel Corporation. Intel originally purchased 1,552,632 shares of Avid common stock in March 1997. See Note 10 to Condensed Consolidated Financial Statements herein. As of November 9, 1998, the Company had repurchased approximately 176,000 shares of Avid common stock at a cost of approximately \$4.1 million under the program announced during October 1998.

Other planned uses of cash include the efforts to develop the purchased in-process research and development related to the Softimage acquisition into commercially viable products. The estimated costs to be incurred to complete the development of in-process research and development projects total approximately \$23 million through the first half of the year 2000. Additionally, the note issued to Microsoft Corporation in connection with the acquisition is due and payable in June, 2003.

YEAR 2000 ISSUE

The Company, like many other companies, is taking steps to confirm and address its readiness for any problems that may arise due to the "Year 2000 Issue." In broad terms, the "Year 2000 Issue" refers to the possibility that a given computer system, software product or other equipment utilizing microprocessors may not correctly process dates beyond December 31, 1999 because such systems are coded to accept only two digit entries in the date code field, and therefore might read a date using "00" as the year 1900 rather than the year 2000. As a result, a given system may fail to work at all or may give erroneous information or miscalculations potentially causing a disruption in operations, including, among other things, interruptions in manufacturing operations, a temporary inability to process transactions, send invoices, or engage in similar normal business transactions.

The Company has commenced a phased program to identify, assess, test, remediate,

and develop contingency plans for all mission-critical applications and products potentially affected by the Year 2000 Issue ("the Y2K Program"), to be substantially completed by June 30, 1999. The Company has also established a Year 2000 Program Management Office to manage the Y2K Program. All Company groups are represented and involved in the Y2K Program efforts. The Company has also engaged a third-party consultant to assist with the Company's Y2K Program. The goal of the Y2K Program is to determine that the particular product or asset is "Year 2000 Ready"; that is, when used in its designated manner of use, prior to, during or after the calendar year 2000, the product or asset will operate correctly, including leap year and date sensitive calculations.

The Y2K Program has identified three potential areas of impact for review: (1) the software and systems used in the Company's internal business processes; (2) the Company's software and hardware products offered to customers; and (3) third party vendors, manufacturers and suppliers.

The Company, utilizing a third-party consultant, is conducting its inventory and assessment of internal applications and computer hardware. Some software applications have been determined to be Year 2000 ready, and work is already underway to address other applications which have not yet been determined to be Year 2000 Ready based on their importance to the business and the estimated time required to make them Year 2000 Ready. Currently, the Company is on target for completing its inventory and assessment phase by December 31, 1998. All internal software and hardware testing and any necessary remediation is expected to be completed no later than June 30, 1999.

With regard to products sold by the Company, the Company's Year 2000 Program efforts include assessment and testing of designated products currently or recently sold by the Company for Year 2000 issues. Generally, for any such products identified as being subject to the Year 2000 Issue, the Company plans to take an appropriate action suited to the particular product, such as preparing updates, recommending migration paths, providing patches, ceasing to sell the product, or a combination of actions.

While the Company's goal is to ensure that the designated products currently or recently sold are Year 2000 Ready, the actual performance of such Company products will also require that systems used by the end user in conjunction with the Company products be Year 2000 Ready and accurately exchange information with such Company products.

The Company has initiated communication with significant suppliers to determine the extent to which the Company's operations are vulnerable to those third parties' failure to remediate their own Year 2000 issues. Suppliers of hardware, software or other products that might contain embedded processors were requested to provide certification regarding the Year 2000 Readiness status of their products. The Company will continue to seek certification from non-responsive suppliers and will continue to evaluate the importance of other existing vendors and suppliers. In addition, in order to protect against the acquisition of additional products that may not be Year 2000 Ready, the Company plans to implement a policy that would require sufficient assurances that products sold or licensed to the Company are Year 2000 Ready, prior to purchase of such products.

Year 2000 Readiness activities are expected for the most part to be performed as a part of the Company's normal sustaining activity. The Company is not currently able to estimate the total cost of its Year 2000 identification, assessment, remediation and testing efforts. The Company believes based on available information that Year 2000 Readiness will be achieved in a timely manner. However, satisfactorily addressing the Year 2000 Issue on a timely basis is dependent on many factors, some of which are not completely within the Company's control, including the continued availability of skilled resources, critical suppliers and subcontractors meeting their commitments to be Year 2000 Ready, and timely action by customers to address their own Year 2000 issues. If the Company fails to adhere to its timeline for achieving Year 2000 Readiness for these or any other unforeseen reasons, the costs could become material to the Company's results of operations as the millennium approaches.

As with other companies generally, the Company's internal business operations could be subject to the risks generally associated with the Year 2000 Issue. Moreover, because the Company is in the business of selling computer software and hardware products, the Company is also subject to the potential effect of the Year 2000 Issue on the Company's products, thus making the Company's related Year 2000 risk potentially greater than that of companies in other industries. Despite the Company's evaluation and testing of its internal business operations or products, there remains the risk that errors or defects related to the Year 2000 Issue may remain undetected.

Should the Company's internal systems, its software and/or hardware products delivered to customers or the internal systems of one or more of its significant vendors, manufacturers or suppliers fail to achieve Year 2000 readiness (or any combination of those events), the Company's business and its results of

operations could be adversely affected in a variety of ways, including the delay or loss of revenue, a diversion in development resources, delay or cancellation of the product development, or increased service or warranty costs. There can be no assurance that there will not be interruptions in the Company's operations, other limitations of systems functionality, product failures, or significant costs incurred to avoid such interruptions, limitations or failures.

The Company has not yet fully developed a contingency plan to address situations that may result if the Company is unable to achieve Year 2000 Readiness of its critical operations. Development of such contingency plans is in progress and is expected to be completed by June 30, 1999. The Company is also subject to the same unpredictable external forces that generally affect industry and commerce. There can be no assurance that the Company will be able to develop a contingency plan that will adequately address all Year 2000 issues that may arise.

EUROPEAN MONETARY UNION

On January 1, 1999, eleven of the fifteen member countries of the European Union are scheduled to establish fixed conversion rates between their sovereign currencies and the euro. As of that date, the participating countries have agreed to adopt the euro as their common legal currency. However the legacy currencies will also remain legal tender in the participating countries for a transition period between January 1, 1999 and January 1, 2002. During this transition period, public and private parties may elect to pay or charge for goods and services using either the euro or the participating country's legacy currency.

The Company established a task force to assess the potential impact to the Company as a result of the introduction of the euro. The task force has developed a plan for addressing potential operational issues. The plan includes testing and evaluating system capabilities, determining euro and legacy currency pricing strategies and analyzing the effects on the Company's currency exposure and hedging practices. The Company's plan for testing and evaluating system capabilities with respect to the euro will determine whether the Company will be able to process euro-denominated transactions such as invoices, purchases, payments and cash receipts, and whether such transactions will be properly translated into the legacy and reporting currencies. The Company does not expect the system and equipment conversion costs to be material. Due to numerous uncertainties, the Company can not reasonably estimate the effects one common currency will have on pricing and the resulting impact, if any, on the Company's financial condition or results of operations.

NEW ACCOUNTING PRONOUNCEMENTS

On June 15, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair values. Changes in the fair values of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether or not a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction. SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999 (January 1, 2000 for the Company) and its adoption is not expected to have a material impact on the Company's financial position or results of operations.

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 recently began shipping its Avid Symphony product, which is based on Intel Architecture ("IA") -based computers and the Microsoft Windows NT operating system, and its ProTools/24 MIX product. The Company expects that a portion of its revenues for the fourth quarter will be attributable to sales of these newly introduced products. However, if these products fail to achieve anticipated levels of market acceptance, the Company's revenues and results of operations would be adversely affected. In addition, the Company has from time to time developed new products or upgraded existing products to incorporate advances in enabling technologies. For example, the Company is continuing to develop additional products that operate using IA - based computers and the Windows NT operating system. There can be no assurance that customers will not defer purchases of existing Apple-based and other products in anticipation of the release of such new products, that the Company will be successful in developing additional new products or that they will gain market acceptance, if developed. Any deferral by customers of purchases of existing Apple-based or other products or any failure by the Company to develop such new 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.

Many of the Company's products operate primarily only on Apple computers. The Company relies on Apple Computer, Inc. as the sole manufacturer of such computers. There can be no assurance that customers will not purchase competitors' products based on non-Apple computers, that Apple will continue to develop, manufacture, and support 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 August 1998, the Company consummated its acquisition of Softimage from Microsoft. Softimage is a leading developer of 3D animation, video production, 2D cel animation and compositing software solutions and technologies. The Company's business and results of operations could be materially adversely affected in the event that the Company fails successfully to integrate the business and operations of Softimage.

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, allocations of overhead costs to manufacturing and customer support costs to cost of goods, 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. In addition, during the first nine months of 1998, the Company installed server-based, all-digital broadcast newsroom systems at certain customer sites. Some of these systems have been accepted by customers, and the resulting revenues and associated costs were recognized by the Company. Others of these systems have not yet been accepted by customers. The Company believes that such installations, when and if fully recognized as revenue on customer acceptance, will be profitable. However, the Company is unable to determine whether and when the systems will be accepted. In any event, the Company believes that, because of the high proportion of third-party hardware, including computers and storage devices, included in such systems, the gross margins on such sales will be lower than the gross margins generally on the Company's other systems.

The Company has shifted an increasing proportion of its sales through indirect channels such as distributors and resellers. The Company believes the overall shift to indirect channels has resulted in an increase in the number of software and circuit board "kits" sold through indirect channels in comparison with turnkey systems consisting of CPUs, monitors, and peripheral devices, including accompanying software and circuit boards, sold by the Company through its direct

sales force to customers. Resellers and distributors typically purchase software and "kits" from the Company and other turnkey components from other vendor sources in order to produce complete systems for resale. 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 unit sale or is unable to continue to reduce its costs associated with such sales, profits could be adversely affected.

The Company's operating expense levels are based, in part, on its expectations of future revenues. In recent quarters approximately half of the Company's revenues for the 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 upon which expense levels are based, the Company's operating results may 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 certain assets.

The Company has significant deferred tax assets. The deferred tax assets reflect the net tax effects of tax credit and operating loss carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Although realization is not assured, management believes it is more likely than not that all of the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

The Company has expanded its product line to address the digital media production needs of the television broadcast news market, online film and video finishing market and the emerging market for multimedia production tools, including the corporate 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, that such products will achieve widespread customer acceptance, or that the Company will be able to develop distribution and support channels to serve these markets. 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 and to develop new distribution and support channels, 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 is also dependent on a number of other suppliers as sole source vendors of certain other key components of its products and systems. Components purchased by the Company from sole source vendors include; 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; application specific integrated circuits ("ASICs") from AMI, Atmel, and LSI Logic; digital signal processing integrated circuits from Motorola; a fibre channel adapter card from Adaptec; a fibre channel storage array from Data General's Clariion division; and a PCI expansion chassis from Magma Inc. The Company purchases these sole source components pursuant to purchase orders placed from time to time. The Company also manufactures certain circuit boards under license from Truevision, Inc. The Company generally does not carry significant inventories of these sole source components and has no guaranteed supply arrangements. 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 technical, operating or financial difficulties that might imperil the Company's supply of such sole source components. While the Company believes that alternative sources of supply for sole source components could be developed, or systems redesigned to permit the use of alternative components, its business and results of operations could be materially affected if it were to encounter an untimely or extended 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 video and film editing and effects, digital news production, and professional audio markets. Many current and potential competitors of the Company have substantially greater financial, technical, distribution, support, 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.

A significant portion of the Company's business is conducted in currencies other than the U.S. dollar. Changes in the value of major foreign currencies relative to the value of the U.S. dollar, therefore, could adversely affect future revenues and operating results. The Company attempts to reduce the impact of currency fluctuations on results through the use of forward exchange contracts that hedge foreign currency-denominated intercompany net receivables or payable balances. The Company has generally not hedged transactions with external parties, although it periodically reevaluates its hedging practices.

The Company is involved in various legal proceedings, including patent 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 9 to Condensed Consolidated Financial Statements.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS.

- 4 Common Stock Purchase Warrant dated August 3, 1998 by and between Avid Technology, Inc. and Microsoft Corporation.
- 10.1 Registration Rights Agreement dated as of August 3, 1998 by and between Avid Technology, Inc. and Microsoft Corporation.
- 10.2 Ninth Amendment dated as of September 30, 1998 to Amended and Restated Revolving Credit Agreement and Assignment, by and among Avid Technology, Inc., BankBoston, N.A (formerly known as The First National Bank of Boston) and the other lending institutions listed on Schedule 1 to the Credit Agreement, amending certain provisions of the Amended and Restated Revolving Credit Agreement dated as of June 30, 1995.
- 27 Financial Data Schedule

- (b) REPORTS ON FORM 8-K. For the fiscal quarter ended September 30, 1998, the Company filed current reports on Form 8-K on July 7, 1998 and August 12, 1998.

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 12, 1998

By: /s/ William L. Flaherty

William L. Flaherty, Senior Vice
President of Finance, Chief
Financial Officer and Treasurer
(Principal Financial Officer)

EXHIBIT INDEX

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27	Financial Data Schedule

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUED UPON
ITS EXERCISE ARE SUBJECT TO THE RESTRICTIONS ON TRANS-
FER SET FORTH IN SECTION 4 OF THIS WARRANT

Warrant No. 1

Number of Shares: 1,155,235
(subject to adjustment)

Date of Issuance: August 3, 1998

AVID TECHNOLOGY, INC.

COMMON STOCK PURCHASE WARRANT

(Void after August 3, 2008)

Avid Technology, Inc., a Delaware corporation (the "COMPANY"), for value received, hereby certifies that Microsoft Corporation or, subject to Section 9, its registered assigns (the "REGISTERED HOLDER"), is entitled, subject to the terms set forth below, to purchase from the Company, at any time or from time to time on or after August 3, 2000 and on or before August 3, 2008 at not later than 5:00 p.m. (Boston, Massachusetts time), 1,155,235 shares of common stock, \$.01 par value per share (the "COMMON STOCK"), of the Company, at a purchase price of \$47.65 per share. The shares of Common Stock purchasable upon exercise of this Warrant, and the purchase price per share, each as adjusted from time to time pursuant to the provisions of this Warrant, are hereinafter referred to as the "WARRANT SHARES" and the "PURCHASE PRICE," respectively.

1. EXERCISE

(1) This Warrant may be exercised by the Registered Holder, in whole or in part, by surrendering this Warrant, with the purchase form appended hereto as EXHIBIT I duly executed by such Registered Holder or by such Registered Holder's duly authorized attorney, at the principal office of the Company, or at such other office or agency as the Company may designate, accompanied by payment in full, in lawful money of the United States, of the Purchase Price payable in respect of the number of Warrant Shares purchased upon such exercise. The Purchase Price shall be paid in the form of (i) cash, (ii) a check of the Registered Holder to the Company, (iii) an electronic wire transfer of immediately available funds in accordance with written instructions of the Company or, (iv) if approved by the Company, any combination of the foregoing forms of payment.

(2) Each exercise of this Warrant shall be deemed to have been effected immediately prior to the close of business on the day on which this Warrant shall have been surrendered to the Company as provided in subsection 1(a) above. At such time, the person or persons in whose name or names any certificates for Warrant Shares shall be issuable upon such exercise as provided in subsection 1(c) below shall be deemed to have become the holder or holders of record of the Warrant Shares represented by such certificates.

(3) As soon as practicable after the exercise of this Warrant in full or in part, and in any event within 10 days thereafter, the Company, at its expense, will cause to be issued in the name of, and delivered to, the Registered Holder, or as such Holder (upon compliance with Section 9 and payment by such Holder of any applicable transfer taxes) may direct:

(1) a certificate or certificates for the number of full Warrant Shares to which such Registered Holder shall be entitled upon such exercise plus, in lieu of any fractional share to which such Registered Holder would otherwise be entitled, cash in an amount determined pursuant to Section 3 hereof; and

(2) in case such exercise is in part only, a new warrant or warrants (dated the date hereof) of like tenor, calling in the aggregate on the face or faces thereof for the number of Warrant Shares equal (without giving effect to any adjustment therein) to the number of such shares called for on the face of this Warrant minus the number of such shares purchased by the Registered Holder upon such exercise.

2. ADJUSTMENTS

(1) If outstanding shares of the Company's Common Stock shall be subdivided into a greater number of shares or a dividend in Common Stock shall be paid in respect of Common Stock, the Purchase Price in effect immediately prior to such subdivision or at the record date of such dividend shall simultaneously with the effectiveness of such subdivision or immediately after the record date of such dividend be proportionately reduced. If outstanding shares of Common Stock shall be combined into a smaller number of shares, the Purchase Price in effect immediately prior to such combination shall, simultaneously with the effectiveness of such combination, be proportionately increased. When any adjustment is required to be made in the Purchase Price, the number of Warrant

Shares purchasable upon the exercise of this Warrant shall be changed to the quotient of (i) (A) the number of shares issuable upon the exercise of this Warrant immediately prior to such adjustment multiplied by (B) the Purchase Price in effect immediately prior to such adjustment, divided by (ii) the Purchase Price in effect immediately after such adjustment.

(2) If there shall occur any capital reorganization or reclassification of the Company's Common Stock (other than a change in par value or a subdivision or combination as provided for in subsection 2(a) above), or any consolidation or merger of the Company with or into another corporation, or a transfer of all or substantially all of the assets of the Company, then, as part of any such reorganization, reclassification, consolidation, merger or sale, as the case may be, lawful provision shall be made so that the Registered Holder of this Warrant shall have the right thereafter to receive upon the exercise hereof the kind and amount of shares of stock or other securities or property which such Registered Holder would have been entitled to receive if, immediately prior to any such reorganization, reclassification, consolidation, merger or sale, as the case may be, such Registered Holder had held the number of shares of Common Stock which were then purchasable upon the exercise of this Warrant. In any such case, appropriate adjustment (as reasonably determined in good faith by the Board of Directors of the Company) shall be made in the application of the provisions set forth herein with respect to the rights and interests thereafter of the Registered Holder of this Warrant, such that the provisions set forth in this Section 2 (including provisions with respect to adjustment of the Purchase Price) shall thereafter be applicable, as nearly as is reasonably practicable, in relation to any shares of stock or other securities or property thereafter deliverable upon the exercise of this Warrant.

(3) When any adjustment is required to be made in the Purchase Price, the Company shall promptly mail to the Registered Holder a certificate setting forth the Purchase Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment. Such certificate shall also set forth the kind and amount of stock or other securities or property into which this Warrant shall be exercisable following the occurrence of any of the events specified in subsection 2(a) or (b) above.

3. FRACTIONAL SHARES. The Company shall not be required upon the exercise of this Warrant to issue any fractional shares, but shall make an adjustment therefor in cash on the basis of the Fair Market Value per share of Common Stock. For this purpose, The Fair Market Value per share of Common Stock shall be determined as follows:

(1) If the Common Stock is listed on a national securities exchange, the Nasdaq National Market or another nationally recognized exchange or trading system as of the Exercise Date, the Fair Market Value per share of Common Stock shall be deemed to be the last reported sale price per share of Common Stock thereon on the Exercise Date; or, if no such price is reported on such date, such price on the next preceding business day (provided that if no such price is reported on the next preceding business day, the Fair Market Value per share of Common Stock shall be determined pursuant to clause (ii)).

(2) If the Common Stock is not listed on a national securities exchange, the Nasdaq National Market or another nationally recognized exchange or trading system as of the Exercise Date, the Fair Market Value per share of Common Stock shall be deemed to be the amount most recently determined by the Board of Directors to represent the fair market value per share of the Common Stock (including without limitation a determination for purposes of granting Common Stock options or issuing Common Stock under an employee benefit plan of the Company); and, upon request of the Registered Holder, the Board of Directors (or a representative thereof) shall promptly notify the Registered Holder of the Fair Market Value per share of Common Stock. Notwithstanding the foregoing, if the Board of Directors has not made such a determination within the three-month period prior to the effective date of exercise, as determined in pursuant to Section 1(b) above (the "EXERCISE DATE"), then (A) the Fair Market Value per share of Common Stock shall be the amount next determined by the Board of Directors to represent the fair market value per share of the Common Stock (including without limitation a determination for purposes of granting Common Stock options or issuing Common Stock under an employee benefit plan of the Company), (B) the Board of Directors shall make such a determination within 15 days of a request by the Registered Holder that it do so, and (C) the exercise of this Warrant pursuant to this subsection 1(b) shall be delayed until such determination is made.

4. SECURITIES LAW TRADING RESTRICTIONS

(1) This Warrant and the Warrant Shares shall not be sold or transferred unless (i) the Company provides consent in accordance with Section 9, and (ii) either (A) the Warrant or the Warrant Shares first shall have been registered under the Securities Act of 1933, as amended (the "Act"), or (B) the Company first shall have been furnished with an opinion of legal counsel, reasonably satisfactory to the Company, to the effect that such sale or transfer is exempt from the

registration requirements of the Act.

(2) Each certificate representing Warrant Shares shall bear a legend substantially in the following form:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL SUCH SECURITIES ARE REGISTERED UNDER SUCH ACT OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY IS OBTAINED TO THE EFFECT THAT SUCH REGISTRATION IS NOT REQUIRED.

The foregoing legend shall be removed from the certificates representing any Warrant Shares, at the request of the holder thereof, at such time as they become eligible for resale pursuant to Rule 144(k) under the Act, or any successor provision thereto.

5. NO IMPAIRMENT. The Company will not, by amendment of its charter or through reorganization, consolidation, merger, dissolution, sale of assets or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the holder of this Warrant against impairment.

6. NOTICES OF RECORD DATE, ETC.

In case:

(1) the Company shall take a record of the holders of its Common Stock (or other stock or securities at the time deliverable upon the exercise of this Warrant) for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right; or

(2) of any capital reorganization of the Company, any reclassification of the capital stock of the Company, any consolidation or merger of the Company with or into another corporation (other than a consolidation or merger in which the Company is the surviving entity), or any transfer of all or substantially all of the assets of the Company; or

(3) of the voluntary or involuntary dissolution, liquidation or winding-up of the Company, then, and in each such case, the Company will mail or cause to be mailed to the Registered Holder of this Warrant a notice specifying, as the case may be, (i) the date on which a record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right, or (ii) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other stock or securities at the time deliverable upon the exercise of this Warrant) shall be entitled to exchange their shares of Common Stock (or such other stock or securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up. Such notice shall be mailed at least ten (10) days prior to the record date or effective date for the event specified in such notice.

7. RESERVATION OF STOCK. The Company will at all times reserve and keep available, solely for issuance and delivery upon the exercise of this Warrant, such number of Warrant Shares and other stock, securities and property, as from time to time shall be issuable upon the exercise of this Warrant.

8. REPLACEMENT OF WARRANTS. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and (in the case of loss, theft or destruction) upon delivery of an indemnity agreement (with surety if reasonably required) in an amount reasonably satisfactory to the Company, or (in the case of mutilation) upon surrender and cancellation of this Warrant, the Company will issue, in lieu thereof, a new Warrant of like tenor.

9. TRANSFER RESTRICTIONS

(1) Neither this Warrant nor any rights hereunder are transferable, in whole or in part, without the written consent of the Company which the Company may withhold in its sole discretion. To effect any such permitted transfer, the Registered Holder must surrender this Warrant with a properly executed assignment (in the form attached hereto as EXHIBIT II) at the principal office of the Company. Such assignment shall not be effective unless and until

countersigned by the Company.

(2) Upon the surrender by the Registered Holder of this Warrant and an assignment executed by the Registered Holder and countersigned by the Company to the Company at the principal office of the Company, the Company will, subject to the provisions of Section 4 hereof, issue and deliver to or upon the order of such Holder a new Warrant of like tenor, in such name as the Registered Holder (upon payment by such Registered Holder of any applicable transfer taxes) shall direct, calling on the face thereof for the number of shares of Common Stock called for on the face of the Warrant so surrendered. (3) Until any permitted transfer of this Warrant is effected as provided above, the Company may treat the Registered Holder of this Warrant as the absolute owner hereof for all purposes.

10. MAILING OF NOTICES, ETC. All notices and other communications from the Company to the Registered Holder of this Warrant shall be mailed by first-class certified or registered mail, postage prepaid, to the address furnished to the Company in writing by the last Registered Holder of this Warrant who shall have furnished an address to the Company in writing. All notices and other communications from the Registered Holder of this Warrant or in connection herewith to the Company shall be mailed by first-class certified or registered mail, postage prepaid, to the Company at its principal office set forth below. If the Company should at any time change the location of its principal office to a place other than as set forth below, it shall give prompt written notice to the Registered Holder of this Warrant and thereafter all references in this Warrant to the location of its principal office at the particular time shall be as so specified in such notice.

11. NO RIGHTS AS STOCKHOLDER. Until the exercise of this Warrant, the Registered Holder of this Warrant shall not have or exercise any rights by virtue hereof as a stockholder of the Company.

12. CHANGE OR WAIVER. No term of this Warrant may be changed or waived other than by an instrument in writing signed by the party against which enforcement of the change or waiver is sought.

13. HEADINGS. The headings in this Warrant are for purposes of reference only and shall not limit or otherwise affect the meaning of any provision of this Warrant.

14. GOVERNING LAW. This Warrant shall be governed by and construed in accordance with the laws of the State of Delaware applicable to contracts entered into and performed entirely within Delaware.

AVID TECHNOLOGY, INC.

By: /S/WILLIAM L. FLAHERTY

Senior Vice President of Finance, Chief
Financial Officer, and Treasurer

ATTEST:

/S/PETER T. JOHNSON

EXHIBIT I

To: _____

Dated: _____

The undersigned, pursuant to the provisions set forth in the attached warrant (No. ____), hereby irrevocably elects to purchase ____ shares of the Common Stock covered by such Warrant. The undersigned herewith makes payment of \$_____, representing the full purchase price for such shares at the price per share provided for in such Warrant. Such payment is in the form of (indicate the applicable amount for each form of payment):

\$_____ Cash

\$_____ Check of the Registered Holder to the Company

\$_____ Wire transfer of immediately available funds to the Company

\$_____ TOTAL PURCHASE PRICE

Signature:

Address:

ASSIGNMENT FORM

FOR VALUE RECEIVED, _____

hereby sells, assigns and transfers all of the rights of the undersigned under the attached Warrant (No. ____) with respect to the number of shares of Common Stock covered thereby set forth below, unto:

Name of Assignee	Address	No. of Shares
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REGISTERED HOLDER

Signature: _____ Dated: _____

Witness: _____ Dated: _____

On behalf and in the name of the Company, the undersigned consents to the assignment of the attached Warrant by the Registered Holder to the assignee set forth above.

COMPANY

By:

Name:

Title:

REGISTRATION RIGHTS AGREEMENT

This Agreement, dated as of August 3, 1998 is entered into by and between Avid Technology, Inc., a Delaware corporation (the "COMPANY"), and Microsoft Corporation, a Washington corporation (the "PURCHASER").

RECITALS

Whereas, the Company and the Purchaser have entered into a Stock and Asset Purchase Agreement dated as of June 15, 1998 (the "PURCHASE AGREEMENT");

Whereas, the Purchaser has agreed that no shares of capital stock of the Company received in connection with the Purchase Agreement (and the warrant issued thereunder) shall be transferred by the Purchaser until after the third anniversary of the Closing Date (as defined in the Purchase Agreement); and

Whereas, the Company and the Purchaser desire to provide for certain arrangements with respect to the registration of shares of capital stock of the Company under the Securities Act of 1933;

Now, Therefore, in consideration of the mutual promises and covenants contained in this Agreement, the parties hereto agree as follows:

1. CERTAIN DEFINITIONS.

As used in this Agreement, the following terms shall have the following respective meanings:

"COMMISSION" means the Securities and Exchange Commission, or any other federal agency at the time administering the Securities Act.

"COMMON STOCK" means the common stock, \$.01 par value per share, of the Company.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended, or any successor federal statute, and the rules and regulations of the Commission issued under such Act, as they each may, from time to time, be in effect.

"OTHER HOLDERS" shall have the meaning set forth in Section 2(c).

"PROSPECTUS" means the prospectus included in any Registration Statement, as amended or supplemented by an amendment or prospectus supplement, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

"REGISTRATION STATEMENT" means a registration statement filed by the Company with the Commission for a public offering and sale of securities of the Company (other than a registration statement on Form S-8 or Form S-4, or their successors, or any other form for a similar limited purpose, any registration statement covering only securities proposed to be issued in exchange for securities or assets of another corporation or any registration statement covering only securities offered by another stockholder or stockholders of the Company).

"REGISTRATION EXPENSES" means the expenses described in Section 5.

"REGISTRABLE SHARES" means the Shares and any other shares of Common Stock issued in respect of the Shares (because of stock splits, stock dividends, reclassifications, recapitalizations or other similar events); PROVIDED, HOWEVER, that shares of Common Stock which are Registrable Shares shall cease to be Registrable Shares upon (i) becoming eligible for sale under Rule 144(k) under the Securities Act, (ii) any sale pursuant to a Registration Statement or Rule 144 under the Securities Act or (iii) any sale in any manner to a person or entity which, by virtue of Section 12 of this Agreement, is not entitled to the rights provided by this Agreement.

"SECURITIES ACT" means the Securities Act of 1933, as amended, and the rules and regulations thereunder, as they may be from time to time in effect.

"SHARES" means the shares of Common Stock acquired by the Purchaser under the Purchase Agreement, including shares of Common Stock issued upon exercise of the Warrant (as defined in the Purchase Agreement).

"STOCKHOLDER" means the Purchaser and any person or entity to whom the rights granted under this Agreement are transferred by the Purchaser pursuant to Section 12 hereof.

2. REQUIRED REGISTRATIONS

(1) At any time after August 3, 2001, the Stockholder may request, in writing, that the Company effect the registration under the Securities Act of Registrable Shares owned by the Stockholder.

(2) Upon receipt of any request for registration pursuant to this Section 2 received after August 3, 2001, the Company shall use its reasonable best efforts to effect the registration, on Form S-3 under the Securities Act (or, if such form is not available, such other form as shall be appropriate for such sale), of all Registrable Shares which the Company has been requested to so register.

(3) If the Stockholder intends to distribute the Registrable Shares covered by its request by means of an underwriting, it shall so advise the Company as a part of its request made pursuant to Section 2(a). If other holders of securities of the Company who are entitled by contract with the Company to have securities included in such a registration (the "OTHER HOLDERS") request that their securities be included in such registration and underwriting, the Company may include the securities of such Other Holders in such registration and underwriting on the terms set forth herein. The Company shall (together with the Stockholder and all Other Holders proposing to distribute their securities through such underwriting) enter into an underwriting agreement in customary form (including, without limitation, customary indemnification and contribution provisions) with the managing underwriter. Notwithstanding any other provision of this Section 2(c), if the managing underwriter advises the Company that the inclusion of all shares requested to be registered would adversely affect the offering, the securities of the Company held by Other Holders shall first be excluded from such registration and underwriting to the extent deemed advisable by the managing underwriter and, if all such shares have been excluded and further limitation of the number of shares is required, Registrable Shares shall then be excluded from such underwriting and registration to the extent deemed advisable by the managing underwriter. If the Stockholder or any Other Holder who has requested inclusion in such registration as provided above disapproves of the terms of the underwriting, such person may elect to withdraw therefrom by written notice to the Company, and the securities so withdrawn shall also be withdrawn from registration. If the managing underwriter has not limited the number of Registrable Shares or other securities to be underwritten, the Company may include securities for its own account in such registration if the managing underwriter so agrees and if the number of Registrable Shares and other securities which would otherwise have been included in such registration and underwriting will not thereby be limited.

(4) The Stockholder shall have the right to select the managing underwriter(s) for any underwritten offering requested pursuant to Section 2(a), subject to the approval of the Company, which approval will not be unreasonably withheld.

(5) The Company shall not be required to effect more than four registrations pursuant to Section 2. In addition, the Company shall not be required to effect any registration within six months after the effective date of any other Registration Statement. For purposes of this Section 2(e), a Registration Statement shall not be counted until such time as such Registration Statement has been declared effective by the Commission (unless the Stockholder withdraws its request for such registration and elects not to pay the Registration Expenses therefor pursuant to Section 5).

(6) If at the time of any request to register Registrable Shares by the Stockholder pursuant to this Section 2, the Company is engaged or has plans to engage in a registered public offering or is engaged or plans to engage in any other activity which, in the good faith determination of the Company's Board of Directors, would be adversely affected by the requested registration, then the Company may at its option direct that such request be delayed for a period not in excess of 90 days from the date of such request, such right to delay a request to be exercised by the Company not more than once, or for an aggregate delay of more than 90 days, in any 12-month period.

3. INCIDENTAL REGISTRATION

(1) Whenever the Company proposes to file a Registration Statement (other than a Registration Statement filed pursuant to Section 2) at any time and from time to time, it will, prior to such filing, give written notice to the Stockholder of its intention to do so. Upon the written request of the Stockholder given within 20 days after the Company provides such notice (which request shall state the intended method of disposition of such Registrable Shares), the Company shall use reasonable efforts to cause all Registrable Shares which the Company has been requested by the Stockholder to register to be registered under the Securities Act to the extent necessary to permit their sale or other disposition in accordance with the intended methods of distribution specified in the request of the Stockholder; provided that the Company shall have the right to postpone or withdraw any registration effected pursuant to this Section 3 without obligation to the Stockholder.

(2) If the registration for which the Company gives notice pursuant to Section 3(a) is a registered public offering involving an underwriting, the Company shall so advise the Stockholder as a part of the written notice given pursuant to Section 3(a). In such event, the right of the Stockholder to include its Registrable Shares in such registration pursuant to Section 3 shall be conditioned upon such Stockholder's participation in such underwriting on the terms set forth herein. If the Stockholder proposes to distribute Registrable Shares through such underwriting, it shall (together with the Company and any Other Holders distributing their securities through such underwriting) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for the underwriting by the Company. Notwithstanding any other provision of this Section 3, if the managing underwriter determines that the inclusion of all shares requested to be registered would adversely affect the offering, the Company may limit the number of Registrable Shares to be included in the registration and underwriting. The Company shall so advise the Stockholder and the number of shares that are entitled to be included in the registration and underwriting shall be allocated in the following manner. The securities of the Company held by stockholders other than Other Holders shall first be excluded from such registration and underwriting to the extent deemed advisable by the managing underwriter and, if all such shares have been excluded and further limitation of the number of shares is required, the number of shares that may be included in such registration and underwriting shall then be allocated among the Stockholder and Other Holders requesting registration in proportion, as nearly as practicable, to the respective number of shares of Common Stock (on an as-converted basis) which they held at the time the Company gave the notice specified in Section 3(a). If the Stockholder or any such Other Holder would thus be entitled to include more securities than such holder requested to be registered, the excess shall be allocated among the Stockholder and such Other Holders pro rata in the manner described in the preceding sentence. If the Stockholder or any Other Holder disapproves of the terms of any such underwriting, such person may elect to withdraw therefrom by written notice to the Company, and any Registrable Shares or other securities excluded or withdrawn from such underwriting shall be withdrawn from such registration.

4. REGISTRATION PROCEDURES

(1) If and whenever the Company is required by the provisions of Section 2 or Section 3 of this Agreement to use its best efforts to effect the registration of any Registrable Shares under the Securities Act, the Company shall:

(1) file with the Commission a Registration Statement with respect to such Registrable Shares and use its reasonable best efforts to cause that Registration Statement to become and remain effective for 180 days from the effective date or such lesser period until all such Registrable Shares are sold;

(1) as expeditiously as possible furnish to the Stockholder such reasonable numbers of copies of the Prospectus, including any preliminary Prospectus, in conformity with the requirements of the Securities Act, and such other documents as the Stockholder may reasonably request in order to facilitate the public sale or other disposition of the Registrable Shares;

(2) as expeditiously as possible use its reasonable best efforts to register or qualify the Registrable Shares covered by the Registration Statement under the securities or Blue Sky laws of such states as the Stockholder shall reasonably request, and do any and all other acts and things that may be necessary or desirable to enable the Stockholder to consummate the public sale or other disposition in such states of the Registrable Shares included in the Registration Statement; PROVIDED, HOWEVER, that the Company shall not be required in connection with this paragraph (iii) to qualify as a foreign corporation or execute a general consent to service of process in any jurisdiction;

(3) as expeditiously as possible, cause all such Registrable Shares to be listed on each securities exchange or automated quotation system on which similar securities issued by the Company are then listed;

(4) promptly provide a transfer agent and registrar for all such Registrable Shares not later than the effective date of such registration statement;

(5) promptly make available for inspection by the Stockholder, any managing underwriter participating in any disposition pursuant to such Registration Statement, and any attorney or accountant or other agent retained by any such underwriter or selected by the Stockholder, all financial and other records, pertinent corporate documents and properties of the Company and cause the Company's officers, directors, employees and independent accountants to supply all information reasonably requested by any such seller, underwriter, attorney, accountant or agent in connection with such Registration Statement;

(6) as expeditiously as possible, notify the Stockholder, promptly after the Company shall receive notice thereof, of the time when such Registration

Statement has become effective or a supplement to any Prospectus forming a part of such Registration Statement has been filed; and

(7) as expeditiously as possible following the effectiveness of such Registration Statement, notify the Stockholder of any request by the Commission for the amending or supplementing of such Registration Statement or Prospectus.

(2) If the Company has delivered a Prospectus to the Stockholder and after having done so the Prospectus is amended to comply with the requirements of the Securities Act, the Company shall promptly notify the Stockholder and, if requested, the Stockholder shall immediately cease making offers of Registrable Shares and return all Prospectuses to the Company. The Company shall promptly provide the Stockholder with revised Prospectuses and, following receipt of the revised Prospectuses, the Stockholder shall be free to resume making offers of the Registrable Shares.

(3) In the event that, in the judgment of the Company based on advice of counsel, it is advisable to suspend use of a Prospectus included in a Registration Statement due to pending material developments or other events that have not yet been publicly disclosed or due to the need to file with the Commission financial statements required to comply with the Securities Act, the Company shall notify the Stockholder to such effect, and, upon receipt of such notice, the Stockholder shall immediately discontinue any sales of Registrable Shares pursuant to such Registration Statement until the Stockholder has received copies of a supplemented or amended Prospectus or until the Stockholder is advised in writing by the Company that the then current Prospectus may be used and has received copies of any additional or supplemental filings that are incorporated or deemed incorporated by reference in such Prospectus. Notwithstanding anything to the contrary herein, the Company shall not exercise its rights under this Section 4(c) to suspend sales of Registrable Shares for a period in excess of 90 days in any 365-day period.

5. ALLOCATION OF EXPENSES. The Company will pay all Registration Expenses for all registrations under this Agreement; PROVIDED, HOWEVER, that if a registration under Section 2 is withdrawn at the request of the Stockholder (other than as a result of information concerning the business or financial condition of the Company which is made known to the Stockholder after the date on which such registration was requested) and if the Stockholder elects not to have such registration counted as a registration requested under Section 2, the Stockholder shall pay the Registration Expenses of such registration. For purposes of this Section, the term "REGISTRATION EXPENSES" shall mean all expenses incurred by the Company in complying with this Agreement, including, without limitation, all registration and filing fees, exchange listing fees, printing expenses, fees and expenses of counsel for the Company, state Blue Sky fees and expenses, and the expense of any special audits incident to or required by any such registration, but excluding underwriting discounts and selling commissions and any fees and expenses of counsel to the Stockholder.

6. INDEMNIFICATION AND CONTRIBUTION

(1) In the event of any registration of any of the Registrable Shares under the Securities Act pursuant to this Agreement, the Company will indemnify and hold harmless the Stockholder, each underwriter of Registrable Shares, and each other person, if any, who controls the Stockholder or such underwriter within the meaning of the Securities Act or the Exchange Act against any losses, claims, damages or liabilities, joint or several, to which the Stockholder or such underwriter or controlling person may become subject under the Securities Act, the Exchange Act, state securities or Blue Sky laws or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any Registration Statement under which such Registrable Shares were registered under the Securities Act, any preliminary prospectus or final prospectus contained in the Registration Statement, or any amendment or supplement to such Registration Statement, or arise out of or are based upon the omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and the Company will reimburse the Stockholder and such underwriter or controlling person for any legal or any other expenses reasonably incurred by the Stockholder or such underwriter or controlling person in connection with investigating or defending any such loss, claim, damage, liability or action; PROVIDED, HOWEVER, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any untrue statement or omission made (i) in such Registration Statement, preliminary prospectus or prospectus, or any such amendment or supplement, in reliance upon and in conformity with information furnished to the Company, in writing, by or on behalf of the Stockholder or such underwriter or controlling person specifically for use in the preparation thereof, or (ii) in any prospectus or preliminary prospectus, or any supplement thereto, other than the most current version thereof, if the Stockholder has breached its obligations under Section 4(b).

(2) In the event of any registration of any of the Registrable Shares under the Securities Act pursuant to this Agreement, the Stockholder will indemnify and hold harmless the Company, each of its directors and officers and each underwriter (if any) and each person, if any, who controls the Company or any such underwriter within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages or liabilities, joint or several, to which the Company, such directors and officers, underwriter or controlling person may become subject under the Securities Act, Exchange Act, state securities or Blue Sky laws or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement under which such Registrable Shares were registered under the Securities Act, any preliminary prospectus or final prospectus contained in the Registration Statement, or any amendment or supplement to the Registration Statement, or arise out of or are based upon any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, if the statement or omission was made in reliance upon and in conformity with information relating to the Stockholder furnished in writing to the Company by or on behalf of the Stockholder specifically for use in connection with the preparation of such Registration Statement, prospectus, amendment or supplement; PROVIDED, HOWEVER, that the obligations of the Stockholder hereunder shall be limited to an amount equal to the net proceeds to the Stockholder from the Registrable Shares sold in connection with such registration.

(3) Each party entitled to indemnification under this Section (the "INDEMNIFIED PARTY") shall give notice to the party required to provide indemnification (the "INDEMNIFYING PARTY") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom; PROVIDED, that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Party (whose approval shall not be unreasonably withheld); and, PROVIDED, FURTHER, that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Section except to the extent that the Indemnifying Party is adversely affected by such failure. The Indemnified Party may participate in such defense at such party's expense; PROVIDED, HOWEVER, that the Indemnifying Party shall pay such expense if representation of such Indemnified Party by the counsel retained by the Indemnifying Party would be inappropriate due to actual or potential differing interests between the Indemnified Party and any other party represented by such counsel in such proceeding; PROVIDED FURTHER that in no event shall the Indemnifying Party be required to pay the expenses of more than one law firm per jurisdiction as counsel for the Indemnified Party. The Indemnifying Party also shall be responsible for the expenses of such defense if the Indemnifying Party does not elect to assume such defense. No Indemnifying Party, in the defense of any such claim or litigation shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect of such claim or litigation, and no Indemnified Party shall consent to entry of any judgment or settle such claim or litigation without the prior written consent of the Indemnifying Party, which consent shall not be unreasonably withheld.

(4) In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in this Section 6 is due in accordance with its terms but for any reason is held to be unavailable to an Indemnified Party in respect to any losses, claims, damages and liabilities referred to herein, then the Indemnifying Party shall, in lieu of indemnifying such Indemnified Party, contribute to the amount paid or payable by such Indemnified Party as a result of such losses, claims, damages or liabilities to which such party may be subject in such proportion as is appropriate to reflect the relative fault of the Company on the one hand and the Stockholder on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative fault of the Company and the Stockholder shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of material fact related to information supplied by the Company or the Stockholder and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Stockholder agree that it would not be just and equitable if contribution pursuant to this Section 6(d) were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this Section 6(d), in no case shall the Stockholder be liable or responsible for any amount in excess of the net proceeds received by the Stockholder from the offering of Registrable Shares; PROVIDED, HOWEVER, that no person guilty of fraudulent misrepresentation (within the meaning of Section 10(f) of the Securities Act) shall be entitled to contribution from any person who was not

guilty of such fraudulent misrepresentation. Any party entitled to contribution will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim for contribution may be made against another party under this Section, notify the party from whom contribution may be sought, but the omission so to notify the party from whom contribution may be sought shall not relieve such party from any other obligation it or they may have thereunder or otherwise under this Section. No party shall be liable for contribution with respect to any action, suit, proceeding or claim settled without its prior written consent, which consent shall not be unreasonably withheld.

7. OTHER MATTERS WITH RESPECT TO UNDERWRITTEN OFFERINGS. In the event that Registrable Shares are sold pursuant to a Registration Statement in an underwritten offering pursuant to Section 2, the Company agrees to (a) enter into an underwriting agreement containing customary representations and warranties with respect to the business and operations of the Company and customary covenants and agreements to be performed by the Company, including without limitation customary provisions with respect to indemnification by the Company of the underwriters of such offering; (b) use reasonable efforts to cause its independent public accounting firm to issue customary "cold comfort letters" to the underwriters with respect to the Registration Statement; and (c) if requested by the Stockholder, consider in good faith making its senior executives available to assist the underwriters with respect to so-called "road shows" in connection with marketing efforts for and the distribution and sale of the Registrable Shares.

8. INFORMATION BY HOLDER. Each holder of Registrable Shares included in any registration shall furnish to the Company such information regarding such holder and the distribution proposed by such holder as the Company may reasonably request in writing and as shall be required in connection with any registration, qualification or compliance referred to in this Agreement.

9. CONFIDENTIALITY OF NOTICES. Upon receiving any written notice from the Company regarding the Company's plans to file a Registration Statement, the Stockholder shall treat such notice confidentially and shall not disclose such information to any person other than as necessary to exercise its rights under this Agreement.

10. RULE 144 REQUIREMENTS. During the term of this Agreement, the Company shall:

(1) use its best efforts to file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act; and

(2) furnish to the Stockholder upon request (i) a written statement by the Company as to its compliance with the reporting requirements of the Securities Act and the Exchange Act, (ii) a copy of the most recent annual or quarterly report of the Company, and (iii) such other reports and documents of the Company as such holder may reasonably request to avail itself of any similar rule or regulation of the Commission allowing it to sell any such securities without registration.

11. TERMINATION. All of the Company's obligations to register Registrable Shares under Sections 2 and 3 of this Agreement shall terminate six years after the date hereof.

12. TRANSFERS OF RIGHTS. This Agreement, and the rights and obligations of the Purchaser hereunder, may not be assigned by the Purchaser without the express written consent of the Company.

13. GENERAL

(1) SEVERABILITY. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(2) GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts applicable to contracts entered into and performed entirely within Massachusetts.

(3) NOTICES. All notices, requests, consents and other communications under this Agreement shall be in writing and shall be deemed delivered (i) two business days after being sent by registered or certified mail, return receipt requested, postage prepaid or (ii) one business day after being sent via a reputable nationwide overnight courier service guaranteeing next business day delivery, in each case to the intended recipient as set forth below:

If to the Company, at Avid Technology, Inc., Metropolitan Technology Park, One Park West, Tewksbury, MA 01876, Attention: President, or at such other address or addresses as may have been furnished in writing by the Company to the

Purchaser, with a copy to Mark G. Borden, Esq., Hale and Dorr, 60 State Street, Boston, MA 02190; and

If to the Purchaser, at Microsoft Corporation, One Microsoft Way, Redmond, WA 98052-6399, Attention: President, or at such other address or addresses as may have been furnished in writing by the Purchaser to the Company, with a copy to Gary J. Kocher, Esq., Preston Gates & Ellis LLP, 5000 Columbia Seafirst Center, 701 Fifth Avenue, Seattle, Washington 98104-7011.

Any party may give any notice, request, consent or other communication under this Agreement using any other means (including, without limitation, personal delivery, messenger service, telecopy, first class mail or electronic mail), but no such notice, request, consent or other communication shall be deemed to have been duly given unless and until it is actually received by the party for whom it is intended. Any party may change the address to which notices, requests, consents or other communications hereunder are to be delivered by giving the other parties notice in the manner set forth in this Section.

(4) COMPLETE AGREEMENT. This Agreement constitutes the entire agreement and understanding of the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter.

(5) AMENDMENTS AND WAIVERS. Any term of this Agreement may be amended or terminated and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), with the written consent of the Company and the holders of at least a majority of the Registrable Shares; PROVIDED, that this Agreement may be amended with the consent of the holders of less than all Registrable Shares only in a manner which affects all such holders in the same fashion. Any such amendment, termination or waiver effected in accordance with this Section 13(e) shall be binding on all parties hereto, even if they do not execute such consent. No waivers or exceptions to any term, condition or provision of this Agreement, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such term, condition or provision.

(6) PRONOUNS. Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns and pronouns shall include the plural, and vice versa.

(7) COUNTERPARTS; FACSIMILE SIGNATURES. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of which together shall constitute one and the same document. This Agreement may be executed by facsimile signatures.

(8) SECTION HEADINGS. The section headings are for the convenience of the parties and in no way alter, modify, amend, limit or restrict the contractual obligations of the parties.

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Executed as of the date first written above.

AVID TECHNOLOGY, INC.

By: /S/WILLIAM L. FLAHERTY

Name: WILLIAM L. FLAHERTY

Title: SENIOR VICE PRESIDENT OF FINANCE,
CFO, AND TREASURER

MICROSOFT CORPORATION

By: /S/ROBERT A. ESHELMAN

Name: ROBERT A. ESHELMAN

Title: ASSISTANT SECRETARY

NINTH AMENDMENT
TO AMENDED AND RESTATED
REVOLVING CREDIT AGREEMENT

Ninth Amendment dated as of September 30, 1998 to Amended and Restated Revolving Credit Agreement (the "Ninth Amendment"), by and among AVID TECHNOLOGY, INC., a Delaware corporation (the "Borrower"), BANKBOSTON, N.A. (FORMERLY KNOWN AS THE FIRST NATIONAL BANK OF BOSTON) and the other lending institutions listed on SCHEDULE 1 to the Credit Agreement (as hereinafter defined) (the "Banks") and BANKBOSTON, N.A., as agent for the Banks (in such capacity, the "Agent"), amending certain provisions of the Amended and Restated Revolving Credit Agreement dated as of June 30, 1995 (as amended and in effect from time to time, the "Credit Agreement") by and among the Borrower, the Banks and the Agent. Terms not otherwise defined herein which are defined in the Credit Agreement shall have the same respective meanings herein as therein.

WHEREAS, the Borrower, the Banks and the Agent have agreed to modify certain terms and conditions of the Credit Agreement as specifically set forth in this Ninth Amendment;

NOW, THEREFORE, in consideration of the premises and the mutual agreements contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SS.1. AMENDMENT TO SS.1 OF THE CREDIT AGREEMENT. Section 1.1 of the Credit Agreement is hereby amended as follows:

(a) the definition of "Consolidated Operating Cash Flow" is hereby amended by inserting immediately after the words "PLUS (ii) depreciation and amortization for such period" the words "PLUS (iii) any pre-tax non cash writedowns taken in the fiscal quarter ended September 30, 1998 of acquired-in-process research and development relating to the Softimage Acquisition, up to an aggregate amount of not more than \$193,741,000"

(b) the definition of "Consolidated Tangible Net Worth" is hereby amended by (i) deleting the period which appears at the end of the text of such definition and substituting in place thereof a semicolon; and (ii) inserting immediately after the end of the text of such definition the words "PROVIDED, HOWEVER, for purposes of calculating compliance with ss.8.2 and ss.8.4 hereof, any after-tax non cash writedowns taken in the fiscal quarter ended September 30, 1998 of acquired-in-process research and development relating to the Softimage Acquisition, up to an aggregate amount of not more than \$149,374,000, which would otherwise be required to be deducted from Consolidated Tangible Net Worth shall not be deducted for purposes of ss.8.2 and ss.8.4 of this Credit Agreement."

SS.2. AMENDMENT TO SS.6 OF THE CREDIT AGREEMENT. Section 6.12 of the Credit Agreement is hereby amended by deleting the text of ss.6.12 in its entirety and restating it as follows:

6.12. USE OF PROCEEDS. The Borrower will use the proceeds of the Loans solely for working capital and general corporate purposes, and will not use any proceeds of the Loans to purchase or otherwise acquire any of the Borrower's capital stock.

SS.3. AMENDMENT TO SS.7 OF THE CREDIT AGREEMENT. Section 7.4 of the Credit Agreement is hereby amended by deleting the text of ss.7.4 in its entirety and restating it as follows:

7.4. DISTRIBUTIONS. The Borrower will not make any Distributions; PROVIDED, HOWEVER, so long as no Event of Default has occurred and is continuing or would exist as a result thereof, the Borrower shall be permitted to make Distributions for the repurchase by the Borrower of its capital stock.

SS.4. AMENDMENT TO SS.8 OF THE CREDIT AGREEMENT. Section 8.4 of the Credit Agreement is hereby amended by inserting immediately after the words "PLUS one hundred percent (100%) of the net proceeds of any new equity issued by the Borrower or any of its Subsidiaries" the words "LESS (d) the aggregate purchase price of all capital stock of the Borrower repurchased by the Borrower through the date of determination"

SS.5. CONDITIONS TO EFFECTIVENESS. This Ninth Amendment shall not

become effective until the Agent receives a counterpart of this Ninth Amendment executed by the Borrower, the Majority Banks and the Agent.

SS.6. REPRESENTATIONS AND WARRANTIES. The Borrower hereby repeats, on and as of the date hereof, each of the representations and warranties made by it in ss.5 of the Credit Agreement, PROVIDED, that all references therein to the Credit Agreement shall refer to such Credit Agreement as amended hereby. In addition, the Borrower hereby represents and warrants that the execution and delivery by the Borrower of this Ninth Amendment and the performance by the Borrower of all of its agreements and obligations under the Credit Agreement as amended hereby are within the corporate authority of the Borrower and have been duly authorized by all necessary corporate action on the part of the Borrower.

SS.7. RATIFICATION, ETC. Except as expressly amended hereby, the Credit Agreement and all documents, instruments and agreements related thereto are hereby ratified and confirmed in all respects and shall continue in full force and effect. The Credit Agreement and this Ninth Amendment shall be read and construed as a single agreement. All references in the Credit Agreement or any related agreement or instrument to the Credit Agreement shall hereafter refer to the Credit Agreement as amended hereby.

SS.8. NO WAIVER. Nothing contained herein shall constitute a waiver of, impair or otherwise affect any Obligations, any other obligation of the Borrower or any rights of the Agent or the Banks consequent thereon.

SS.9. COUNTERPARTS. This Ninth Amendment may be executed in one or more counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

SS.10. GOVERNING LAW. THIS NINTH AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS (WITHOUT REFERENCE TO CONFLICT OF LAWS).

IN WITNESS WHEREOF, the parties hereto have executed this Ninth Amendment as a document under seal as of the date first above written.

AVID TECHNOLOGY, INC.

By: /s/ William L. Flaherty

Title: Senior Vice President of Finance,
Chief Financial Officer, and
Treasurer

BANKBOSTON, N.A.,
individually and as Agent

By: /s/ John B. Desmond

Title: Vice President

ABN AMRO BANK N.V.

By: /s/ Bruce Swords

Title: Vice President

THIS SCHEDULE CONTAINS SUMMARY INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEETS ON THE FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 30, 1998 AND THE CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS AS FILED ON FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 30, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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	JAN-01-1998	
	SEP-30-1998	
		60,643
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