



and the participant's individual performance ("Individual Performance"). Algebraically, this can be represented as:

Bonus Payout = Target Award X Business Unit Performance X Individual Performance

Target Awards range from 5% to 140% of a participant's base salary, based on the organizational structure of the Company.

For purposes of the Plan, all participants are grouped into three business units: corporate, audio and video. For each of the business units, Business Unit Performance is measured by revenue and operating profit. As a threshold matter, for all business units, 2005 revenues must be greater than 2004 revenues (adjusted for any acquisition made by the Company in 2004 as if such acquisition had occurred as of January 1, 2004) for any Bonus Payouts to be made to participants in that business unit. Business Unit Performance is also measured by operating profit. Once a business unit meets an established minimum operating profit threshold ("Threshold Operating Profit"), participants in that business unit become eligible to receive a percentage of their Target Awards up to 100% if the target operating profit ("Target Operating Profit") is achieved, subject to their position within that business unit and further subject to their Individual Performance, each as described below. Specific Threshold and Target Operating Profits are set for each of the video and audio business units. The Threshold Operating Profit for the corporate business unit is the sum of the Threshold Operating Profits for the audio and video business units. Similarly, the Target Operating Profit for the corporate business unit is the sum of the Target Operating Profits of the Company's audio and video business units. If the corporate business unit exceeds its Target Operating Profit, for every \$1.00 of incremental profit in excess of the corporate business unit's Target Operating Profit, an additional \$0.15 is distributed among all participants whose business units exceeded their Target Operating Profits.

Business units are of further importance under the Plan for determining a given participant's Bonus Payout (subject to further adjustment for Individual Performance, as described below), as follows: (1) for executive officers and other corporate vice presidents, 100% of their Business Unit Performance component is based on the results of the corporate business unit; (2) for audio and video business unit vice presidents, 75% of their Business Unit Performance component is based on the results of their business unit and the remaining 25% is based on corporate business unit results; and (3) for participants below the vice president level, 100% of their Business Unit Performance component is based on the results of their business unit.

Finally, there is an Individual Performance component to the Bonus Payout. Management (or in the case of the Company's executive officers, the Compensation Committee) may increase a participant's Bonus Payout by as much as 20% of such participant's bonus target amount or reduce it to zero, based upon its subjective evaluation of such participant's overall performance and contributions to the Company.

Bonus Payouts under the Plan will be determined after financial results for 2005 are publicly released, which is currently anticipated to be in February 2006. Bonus Payouts, if any, are expected to be paid in February 2006.

#### Board of Director Compensation

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On December 8, 2004, based upon a recommendation from the Company's Compensation Committee, the Company's Board of Directors approved modifications to the annual cash compensation for non-employee members of the Board of Directors. Effective January 1, 2005, the annual cash compensation is as follows:

- o a \$25,000 annual retainer for each non-employee director,
- o a \$15,000 annual retainer for the Chair of the Board of Directors,
- o a \$5,000 annual retainer for the Chair of each of the Audit, Nominating and Governance, and Compensation Committees of the Board of Directors,
- o a payment of \$1,500 to each member of the Board of Directors for each meeting attended, and
- o a payment of \$1,500 to each member of the Audit, Nominating and Governance, and Compensation Committees for each meeting attended.

The equity compensation that each non-employee member of the Board of Directors receives has not changed. Pursuant to the terms of the Company's 1993 Directors Stock Option Plan, as amended, on the date of the Company's annual meeting of stockholders, each non-employee member of the Board of Directors receives a non-qualified stock option grant to purchase 10,000 shares of the Company's Common Stock, provided such Board member has served a minimum of six months on the Board of Directors. In addition, upon initial election to the Board of Directors, non-employee members of the Board of Directors receive a non-qualified stock option grant to purchase 10,000 shares of the Company's Common Stock.

SIGNATURE

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 hereunto duly authorized.

Date: December 14, 2004

AVID TECHNOLOGY, INC.  
(Registrant)

By: /s/ David A. Krall

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David A. Krall  
President and Chief Executive Officer  
(Principal Executive Officer)