

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, 2004

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.)

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

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

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

Yes X No
---- -----

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

Yes X No
---- -----

The number of shares outstanding of the registrant's Common Stock as of October 20, 2004 was 33,958,648.

AVID TECHNOLOGY, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004

TABLE OF CONTENTS

PAGE

PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements:

- a) Condensed Consolidated Statements of Operations (unaudited)
for the three and nine months ended September 30, 2004 and 20031
- b) Condensed Consolidated Balance Sheets (unaudited) as of September 30, 2004
and December 31, 2003.....2
- c) Condensed Consolidated Statements of Cash Flows (unaudited)
for the nine months ended September 30, 2004 and 20033
- d) Notes to Condensed Consolidated Financial Statements (unaudited).....4

ITEM 2. Management's Discussion and Analysis of Financial

Condition and Results of Operations.....	13
--	----

ITEM 3. Quantitative and Qualitative Disclosure About Market Risk.....	26
--	----

ITEM 4. Controls and Procedures.....	27
--------------------------------------	----

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.....	28
--------------------------------	----

ITEM 6. Exhibits.....	28
-----------------------	----

SIGNATURES.....	30
-----------------	----

EXHIBIT INDEX.....	31
--------------------	----

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net revenues	\$147,374	\$119,090	\$414,634	\$344,584
Cost of revenues	62,845	52,784	177,943	155,619
Amortization of intangible assets	127	-	127	-
Gross profit	84,402	66,306	236,564	188,965
Operating expenses:				
Research and development	23,780	20,706	68,996	63,833
Marketing and selling	33,435	27,959	96,945	80,971
General and administrative	7,386	5,670	19,456	16,632
Stock-based compensation *	553	-	553	-
Restructuring and other costs, net	-	76	-	1,859
Amortization of intangible assets	988	341	1,976	975
Total operating expenses	66,142	54,752	187,926	164,270
Operating income	18,260	11,554	48,638	24,695
Other income, net	651	592	686	1,330
Income before income taxes	18,911	12,146	49,324	26,025
Provision for (benefit from) income taxes	(63)	300	137	900
Net income	\$18,974	\$11,846	\$49,187	\$25,125
Net income per common share - basic	\$0.58	\$0.40	\$1.54	\$0.88
Net income per common share - diluted	\$0.54	\$0.35	\$1.43	\$0.78
Weighted average common shares outstanding - basic	32,737	29,865	31,857	28,663
Weighted average common shares outstanding - diluted	35,033	33,380	34,374	32,059

* Stock-based compensation associated with the acquisition of M-Audio (Note 3) is comprised of \$99 of research and development expense, \$154 of marketing and selling expense and \$300 of general and administrative expense for the three and nine months ended September 30, 2004.

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

AVID TECHNOLOGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands) (unaudited)	September 30, 2004	December 31, 2003
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$41,734	\$102,649
Marketable securities	78,348	93,660
Accounts receivable, net of allowances of \$9,193 and \$9,161 at September 30, 2004 and December 31, 2003, respectively	94,438	69,230
Inventories	54,913	38,292
Current deferred tax assets, net	1,047	1,032
Prepaid expenses	7,295	5,117
Other current assets	5,610	7,032
	-----	-----
Total current assets	283,385	317,012
Property and equipment, net	26,558	23,223
Intangible assets, net	50,017	1,815
Goodwill	165,356	3,335
Long-term deferred tax assets, net	2,557	-
Other assets	3,804	2,734
	-----	-----
Total assets	\$531,677	\$348,119
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$26,214	\$15,755
Accrued compensation and benefits	22,400	23,753
Accrued expenses and other current liabilities	36,772	27,452
Income taxes payable	10,396	8,504
Deferred revenues	52,615	44,943
	-----	-----
Total current liabilities	148,397	120,407
Long-term debt and other liabilities	1,818	607
	-----	-----
Total liabilities	150,215	121,014
	-----	-----
Contingencies (Note 6)		
Stockholders' equity:		
Common stock	339	311
Additional paid-in capital	530,170	419,981
Accumulated deficit	(145,288)	(194,476)
Deferred compensation	(4,947)	(30)
Cumulative translation adjustment	1,381	1,306
Net unrealized gains (losses) on debt securities	(193)	13
	-----	-----
Total stockholders' equity	381,462	227,105
	-----	-----
Total liabilities and stockholders' equity	\$531,677	\$348,119
	=====	=====

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

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

	Nine Months Ended September 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$49,187	\$25,125
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,931	9,343
Provision for doubtful accounts and recourse obligations	91	418
Compensation expense from stock grants and options	583	169
Equity in income of non-consolidated company	(85)	(155)
Changes in operating assets and liabilities:		
Accounts receivable	(14,281)	5,869
Inventories	(715)	(515)
Prepaid expenses and other current assets	956	84
Accounts payable	3,774	(7,627)
Income taxes payable	1,156	610
Accrued expenses, compensation and benefits	2,236	742
Deferred revenues and deposits	3,301	6,637
NET CASH PROVIDED BY OPERATING ACTIVITIES	57,134	40,700
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(9,805)	(4,578)
Payments for other long-term assets	(485)	(360)
Dividend from non-consolidated company	-	85
Payments for business acquisitions, net of cash acquired	(135,205)	(409)
Purchases of marketable securities	(29,938)	(59,181)
Proceeds from sales of marketable securities	45,585	11,347
NET CASH USED IN INVESTING ACTIVITIES	(129,848)	(53,096)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	(492)	(463)
Proceeds from issuance of common stock under employee stock plans	13,215	44,887
NET CASH PROVIDED BY FINANCING ACTIVITIES	12,723	44,424
Effect of exchange rate changes on cash and cash equivalents	(924)	174
Net increase (decrease) in cash and cash equivalents	(60,915)	32,202
Cash and cash equivalents at beginning of period	102,649	62,174
Cash and cash equivalents at end of period	\$41,734	\$94,376

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

1. FINANCIAL INFORMATION

The accompanying condensed consolidated financial statements include the accounts of Avid Technology, Inc. and its wholly-owned subsidiaries (collectively, "Avid" or the "Company"). These financial statements are unaudited. However, in the opinion of management, the condensed consolidated financial statements include all adjustments, consisting of only normal, recurring adjustments, necessary for their fair presentation. Interim results are not necessarily indicative of results expected for a full year. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include all information and footnotes necessary for a complete presentation of operations, financial position, and cash flows of the Company, in conformity with generally accepted accounting principles. The accompanying condensed consolidated balance sheet as of December 31, 2003 was derived from Avid's audited consolidated financial statements, but does not include all disclosures required by generally accepted accounting principles. The Company filed audited consolidated financial statements for the year ended December 31, 2003 in its 2003 Annual Report on Form 10-K, which included all information and footnotes necessary for such presentation; the financial statements contained in this Form 10-Q should be read in conjunction with the audited consolidated financial statements in the Form 10-K.

The Company's preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. The most significant estimates reflected in these financial statements include accounts receivable and sales allowances, inventory valuation and income tax asset valuation allowances. Actual results could differ from those estimates.

2. NET INCOME PER COMMON SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net income	\$18,974	\$11,846	\$49,187	\$25,125
Weighted average common shares outstanding - basic	32,737	29,865	31,857	28,663
Weighted average potential common stock: Options	2,296	3,515	2,517	3,396
Weighted average common shares outstanding - diluted	35,033	33,380	34,374	32,059
Net income per common share - basic	\$0.58	\$0.40	\$1.54	\$0.88
Net income per common share - diluted	\$0.54	\$0.35	\$1.43	\$0.78

For the three and nine months ended September 30, 2004 and 2003, certain stock options and a warrant have been excluded from the diluted net income per share calculation. Their effect would be anti-dilutive since their exercise prices were in excess of the Company's average common stock fair value for the related period.

Common stock options and a warrant that were considered anti-dilutive securities and excluded from the diluted net income per share calculations were as follows, on a weighted-average basis:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Options	242	10	191	102
Warrant	1,155	1,155	1,155	1,155
Total anti-dilutive common stock options and warrant	1,397	1,165	1,346	1,257

3. ACQUISITIONS

M-Audio

In August 2004, Avid completed the acquisition of M-Audio, a leading provider of digital audio and MIDI (Music Industry Digital Interface) solutions for electronic musicians and audio professionals. Avid paid cash of \$79.6 million net of cash acquired of which \$0.5 million will be paid out over a two year period, and issued stock and options with a fair value of \$96.5 million. The market price of \$42.72 used to value the Avid shares was based on the five-day average closing price of the stock during the period beginning two days before and ending two days after the date that the terms of the acquisition were agreed to and announced publicly. The weighted average price of \$35.14 used to value the options was based on the same five-day average, less the weighted average strike price of the options. Avid also incurred \$3.3 million of transaction costs. The Company has integrated M-Audio into its Professional Audio segment and will market its line of audio products alongside Digidesign's digital audio workstations for the professional and home/hobbyist markets. The goodwill of \$122.0 million resulting from the purchase price allocation reflects the value of the underlying enterprise as well as synergies that Avid expects to realize, including incremental sales of Digidesign products. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Accounts receivable	\$7,288
Inventories	13,420
Other current assets	903
Equipment and other long-term assets	1,520
Identifiable intangible assets:	
Customer relationships	28,000
Trade name	4,700
Non-compete covenant	1,200
Developed technology	4,500
Goodwill	122,022
Total assets acquired	183,553
Accounts payable	(4,626)
Other current liabilities	(5,065)
Deferred compensation related to stock options issued	5,499
Net assets acquired	\$179,361

As part of the purchase agreement, Avid may be required to make additional payments to the former shareholders and option holders of M-Audio of up to \$45.0 million, contingent upon the operating results of M-Audio through December 31, 2005. These payments, if required, will be made through the issuance of additional Avid shares. Any additional Avid shares issued to the former shareholders of M-Audio will be recorded as additional purchase price allocated to goodwill. Any additional Avid shares issued to former option holders of M-Audio will be recorded as stock-based compensation.

The identifiable intangible assets are being amortized over their estimated useful lives of twelve years for customer relationships, six years for the trade name, four years for the developed technology and two years for the non-compete covenant. Accumulated amortization of these intangible assets was \$0.5 million at September 30, 2004. Amortization of these intangible assets in the full year ending December 31, 2004 is expected to be \$1.8 million. The \$122.0 million of

goodwill was assigned to the Company's Audio segment and will not be amortized, in accordance with the requirements of Statement of Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". This goodwill is not deductible for tax purposes.

Avid Nordic AB

In September 2004, the Company acquired Avid Nordic AB, a Sweden-based reseller of Avid products operating in the Nordic and Benelux regions of Europe, for cash (net of cash acquired) of Euro 6.1 million (\$7.4 million) plus transaction costs of \$0.3 million. The Company previously had no ownership interest in Avid Nordic. The acquisition allows Avid to serve customers directly in this region. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed in the transaction (in thousands):

Accounts receivable	\$3,702
Inventory	2,516
Other current assets	589
Equipment and other long-term assets	671
Identifiable intangible asset	4,700
Goodwill	1,955

Total assets acquired	14,133
Accounts payable	(2,571)
Other current liabilities	(2,260)
Long-term deferred tax liability	(1,645)

Net assets acquired	\$7,657
	=====

The identifiable intangible asset represents customer relationships developed in the region by Avid Nordic AB. This asset will be amortized over a five-year period. Accumulated amortization of this asset was \$0.1 million at September 30, 2004. Amortization for the full year ended December 31, 2004 is expected to be \$0.3 million. The goodwill of \$2.0 million resulting from the purchase price allocation reflects the value of the assembled workforce and existing infrastructure in the region. This goodwill was assigned to The Video and Film Editing and Effects ("Video") segment and will not be amortized in accordance with the requirements of SFAS No. 142. This goodwill is not deductible for tax purposes.

NXN SOFTWARE AG

In January 2004, Avid acquired Munich, Germany-based NXN Software AG ("NXN"), a leading provider of asset and production management systems specifically targeted for the entertainment and computer graphics industries, for cash of Euro 35 million (\$43.7 million) less cash acquired of \$0.8 million. The Company also incurred \$1.3 million of transaction costs. The acquisition expands Avid's offering in digital asset management by enabling the Company's film and video post-production, broadcast, audio and 3D animation customers to leverage the workflow capabilities of the NXN Alienbrain(R) product line. NXN is reported within Video segment. The goodwill resulting from the purchase price allocation reflects the synergies the Company hopes to realize by integrating the NXN technology with its other products. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Current assets	\$2,049
Equipment and other long-term assets	584
Identifiable intangible assets	7,200
Deferred tax assets, net	2,480
Goodwill	38,813

Total assets acquired	51,126
Current liabilities assumed	(6,169)

Net assets acquired	\$44,957
	=====

The identifiable intangible assets include completed technology valued at \$4.3 million, customer relationships valued at \$2.1 million, and a trade name valued at \$0.8 million, most of which are being amortized over a six-year period.

Amortization expense relating to these intangibles was \$0.3 million and \$0.9 million for the three- and nine-month periods ended September 30, 2004, respectively. Amortization of these intangibles for the full year ended December 31, 2004 is expected to be \$1.2 million. During the nine-month period ended September 30, 2004, the \$38.8 million of goodwill was reduced by \$0.7 million to \$38.1 million due to a reduction in the estimated fair value of deferred revenue acquired from NXN. This goodwill was assigned to the Video segment and, in accordance with the requirements of SFAS No. 142, will not be amortized. This goodwill is not deductible for tax purposes.

Pro Forma Financial Information for Acquisitions (Unaudited)

The results of operations of M-Audio, Avid Nordic and NXN have been included in the results of operations of the Company since the respective date of each acquisition. The following unaudited pro forma financial information presents the results of operations for the three- and nine-month periods ended September 30, 2004 and 2003 as if the acquisitions of both M-Audio and NXN had occurred at the beginning of 2003. The Company's pro forma results of operations giving effect to the Avid Nordic AB acquisition as if it had occurred at the beginning of 2003 is not included as it would not differ materially from the reported results. The pro forma financial information for the combined entities has been prepared for comparative purposes only and is not indicative of what actual results would have been if the acquisitions had taken place at the beginning of fiscal 2003, or of future results.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
(In thousands, except per share data)				
Net revenues	\$156,329	\$133,273	\$456,918	\$384,739
Net income	\$18,416	\$9,549	\$46,828	\$18,289
Net income per share:				
Basic	\$0.54	\$0.30	\$1.40	\$0.60
Diluted	\$0.51	\$0.27	\$1.30	\$0.54

4. INVENTORIES

Inventories consisted of the following (in thousands):

	September 30, 2004	December 31, 2003
Raw materials	\$16,024	\$12,086
Work in process	4,694	1,475
Finished goods	34,195	24,731
	\$54,913	\$38,292

As of September 30, 2004 and December 31, 2003, the finished goods inventory included deferred costs of \$8.0 million and \$14.0 million, respectively, associated with product shipped to customers for which revenue had not yet been recognized.

5. ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for stock-based awards to employees using the intrinsic value method as prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, no compensation expense is recorded for options issued to employees in fixed amounts and with fixed exercise prices at least equal to the fair market value of the Company's common stock at the date of grant. When the exercise price of stock options granted to employees is less than the fair market value of common stock at the date of grant, the Company records that difference multiplied by the number of shares under option as deferred compensation, which is then amortized over the vesting period of the options. Additionally, deferred compensation is recorded for restricted stock granted to employees based on the fair market value of the Company's stock at date of grant less the amount paid, if any, for the stock by the employee and is amortized over the period during which the restrictions lapse. For holders of these

options or shares who are terminated, the Company ceases amortization and reclassifies the associated deferred compensation to additional paid-in capital. As part of the consideration for the purchase of M-Audio, the Company granted approximately 345,000 options to employees and issued approximately 34,000 shares of restricted stock. In accordance with Financial Accounting Standards Board Interpretation No. 44, a portion of the intrinsic value of the unvested awards was recorded as deferred compensation and is being recognized as stock-based compensation over the remaining future vesting period or, in the case of the restricted stock, as the restrictions lapse.

The Company follows the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," for employee awards. All stock-based awards to non-employees are accounted for at their fair value in accordance with SFAS No. 123.

The following table illustrates the effect on net income and net income per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee awards (in thousands, except per share data).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net income as reported	\$18,974	\$11,846	\$49,187	\$25,125
Add: Stock-based employee compensation expense included in reported net income	557	35	583	64
Deduct: Total stock-based employee compensation expense determined under the fair value-based method for all awards, net of related tax effects	(4,346)	(2,737)	(11,657)	(9,310)
Pro forma net income	\$15,185	\$9,144	\$38,113	\$15,879
Net income per share:				
Basic-as reported	\$0.58	\$0.40	\$1.54	\$0.88
Basic-pro forma	\$0.46	\$0.31	\$1.20	\$0.55
Diluted-as reported	\$0.54	\$0.35	\$1.43	\$0.78
Diluted-pro forma	\$0.44	\$0.28	\$1.12	\$0.50

Under SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model and is amortized over the stock option's vesting period.

6. CONTINGENCIES

On March 11, 1996, Avid was named as a defendant in a patent infringement suit filed in the United States District Court for the Western District of Texas by Combined Logic Company, a California partnership located in Beverly Hills, California. On May 16, 1996, upon Avid's motion, the suit was transferred to the United States District Court for the Southern District of New York. The complaint alleges infringement by Avid of U.S. patent number 4,258,385, and seeks injunctive relief, treble damages, costs, and attorneys' fees. This patent expired on May 15, 1999 and therefore, would not be applicable to the products currently offered by Avid. Accordingly, potential damages, if any, are limited to the period beginning March 11, 1990 (six years prior to this date of the complaint) and ending May 15, 1999. In its answer to the complaint, the Company asserted that it did not infringe the patent and that the patent is invalid. Avid argued a Motion to Dismiss this claim on November 5, 2004 and is awaiting the decision of the court. The Company is unable to quantify a range of loss in this litigation. Combined Logic Company did not specify an alleged damage amount in its complaint. As only limited discovery has been conducted to date by either side in the eight years since Combined Logic Company filed its complaint, the Company believes it does not have sufficient information to provide any meaningful estimate of the possible range of damages that Combined Logic Company might seek. The Company believes it has meritorious defenses to the complaint and intends to contest it vigorously. However, an adverse resolution of this litigation could have an adverse effect on the Company's

consolidated financial position or results of operations in the period in which the litigation is resolved. No costs have been accrued for this possible loss contingency.

In March 1999, Avid and Tektronix, Inc. were sued by Glen Holly Entertainment, Inc., a Tektronix distributor, claiming that Tektronix's discontinuance of the Tektronix Lightworks product line was the result of a strategic alliance by Tektronix and Avid. Glen Holly raised antitrust and common law claims against Avid and Tektronix, and sought lost future profits, treble damages, attorneys' fees, and interest. In March 2001, the United States District Court for the District of California dismissed the anti-trust claims against both parties and the remaining common law claim against the Company was dismissed by stipulation and court order on April 6, 2001. Glen Holly subsequently appealed the lower court's decision. On September 9, 2003, a three-judge panel of the U.S. Court of Appeals for the Ninth Circuit reversed in part the lower court's dismissal and sent the antitrust claims back to the lower court for further findings. Avid and Tektronix filed a Petition for a rehearing by the three-judge panel and a rehearing by the full Ninth Circuit on September 23, 2003. The Petition was denied on December 12, 2003. On March 18, 2004, the Company entered into a settlement agreement with Glen Holly whereby each party issued a general release of all claims relating to the allegations made in this lawsuit. In consideration of the settlement, Avid agreed to make a payment to Glen Holly of \$1,050,000 and accordingly, \$985,000 was paid in March 2004 and the remaining \$65,000 was paid in April 2004. On March 19, 2004, Avid filed an application for determination of good faith settlement with the U.S. District Court requesting that it determine whether Tektronix had a right to contribution or indemnification from Avid arising from claims asserted in the lawsuit. On June 17, 2004, the U.S. District Court issued a ruling in which it determined that Tektronix had no such right. On June 24, 2004, Glen Holly filed a stipulation of dismissal with the Court, dismissing all claims alleged against the Company in this proceeding. On July 14, 2004, the court issued an order finding that the settlement agreement between Avid and Glen Holly was entered into in good faith under applicable law.

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

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

The Company has a standby letter of credit at a bank that is used as a security deposit in connection with the Company's Daly City, California office space lease. In the event of default on this lease, the landlord would be eligible to draw against this letter of credit to a maximum as of September 30, 2004 of \$4.3 million, subject to an annual reduction of approximately \$0.8 million but not below \$2.0 million. The letter of credit will remain in effect at \$2.0 million throughout the remaining lease period, which extends to September 2009. As of September 30, 2004, the Company was not in default of this lease.

The Company, through a third party, provides lease financing options to its customers, including primarily end-users, and occasionally distributors. During the terms of these leases, which are generally three years, the Company remains liable for any unpaid principal balance upon default by the end-user, but such liability is limited in the aggregate based on a percentage of initial amounts funded or, in certain cases, amounts of unpaid balances. At September 30, 2004 and December 31, 2003, Avid's maximum recourse exposure totaled approximately \$16.6 million and \$14.8 million, respectively. The Company records revenue from these transactions upon the shipment of products, provided that all other revenue recognition criteria are met. Because the Company has been providing these financing options to its customers for many years, the Company has a substantial history of collecting under these arrangements without providing refunds or concessions to the end user or financing party. To date, the payment default rate has consistently been between 2% and 4% per year. The Company maintains a reserve against the entire portfolio balance, approximately \$52.0

million and \$63.5 million at September 30, 2004 and December 31, 2003, respectively for estimated losses under this recourse lease program based on these historical default rates. At September 30, 2004 and December 31, 2003, the Company's accrual for estimated losses was \$2.4 million and \$3.3 million, respectively.

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

The following table sets forth the activity in the product warranty accrual account (in thousands):

	Nine Months Ended September 30, 2004	2003
Accrual balance at beginning of period	\$1,355	\$922
Accruals for product warranties	2,651	1,813
Cost of warranty claims	(1,894)	(1,511)
Accrual balance at end of period	\$2,112	\$1,224

7. COMPREHENSIVE INCOME

Total comprehensive income net of taxes consists of net income, the net changes in foreign currency translation adjustment and net unrealized gains and losses on available-for-sale securities. The following is a summary of the Company's comprehensive income, (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net income	\$18,974	\$11,846	\$49,187	\$25,125
Net changes in:				
Foreign currency translation adjustment	1,459	436	75	3,675
Unrealized gains (losses) on securities	99	(6)	(206)	40
Total comprehensive income	\$20,532	\$12,276	\$49,056	\$28,840

8. SEGMENT INFORMATION

The Company's organizational structure is based on strategic business units that offer various products to the principal markets in which the Company's products are sold. These business units equate to two reportable segments: Video and Film Editing and Effects, and Professional Audio. The following is a summary of the Company's operations by reportable segment (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Video and Film Editing and Effects:				
Net revenues	\$95,605	\$86,689	\$284,015	\$243,420
Operating income	\$11,395	\$9,746	\$32,706	\$17,574
Professional Audio:				
Net revenues	\$51,769	\$32,401	\$130,619	\$101,164
Operating income	\$8,533	\$2,225	\$18,588	\$9,955
Combined Segments:				
Net revenues	\$147,374	\$119,090	\$414,634	\$344,584
Operating income	\$19,928	\$11,971	\$51,294	\$27,529

The following table reconciles operating income for reportable segments to the total consolidated amounts for the three- and nine-month periods ended September 30, 2004 and 2003 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Total operating income for reportable segments	\$19,928	\$11,971	\$51,294	\$27,529
Unallocated amounts:				
Restructuring and other costs, net	-	(76)	-	(1,859)
Stock-based compensation	(553)	-	(553)	-
Amortization of acquisition-related intangible assets	(1,115)	(341)	(2,103)	(975)
Consolidated operating income	\$18,260	\$11,554	\$48,638	\$24,695
	=====	=====	=====	=====

9. RESTRUCTURING AND OTHER COSTS, NET

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

In March 2003, the Company implemented a restructuring program under which 48 employees worldwide were terminated, and a leased facility in California was vacated. In connection with these actions, the Company recorded a charge of \$1.2 million for employee terminations and \$0.6 million for unutilized space in Santa Monica that included a write-off of leasehold improvements of \$0.4 million. In September 2004, Avid recorded a charge of \$0.2 million to reflect the decrease in rent to be received from one of the Company's subtenants and reversed a charge of \$0.2 million associated with unutilized space in Tewksbury.

The Company recorded the December 2002 and March 2003 charges in accordance with the guidance of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 requires that a liability be recognized for an operating lease that is not terminated based on the remaining lease rental costs, measured at its fair value on a discounted cash flow basis, when the entity ceases using the rights conveyed by the operating lease. That amount is reduced by any estimated potential sublease rentals, regardless of whether the entity intends to enter into a sublease. Future changes in the fair value of the Company's obligations are recorded through operating expenses.

The following table sets forth the activity in the restructuring and other costs accrual, which is included in Accrued expenses and other liabilities for the nine months ended September 30, 2004 (in thousands):

	Employee Related	Facilities Related	Total
Accrual balance at December 31, 2003	\$50	\$4,843	\$4,893
Revisions of estimated liabilities	(50)	50	-
Cash payments	-	(1,130)	(1,130)
Accrual balance at September 30, 2004	\$-	\$3,763	\$3,763
	=====	=====	=====

The majority of the facilities-related accrual represents estimated losses on subleases of space vacated as part of the Company's restructuring actions. The leases, and charges against the amount accrued, extend through 2010 unless the Company is able to negotiate an earlier termination.

10. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2003, the FASB issued SFAS No. 150, "Accounting For Certain Financial Instruments with Characteristics of Both Liabilities and Equity", which establishes standards for how an issuer of financial instruments classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) if, at inception, the monetary value of the obligation is based solely or predominantly on a fixed monetary amount known at inception, variations in something other than the fair value of the issuer's equity shares or variations inversely related to changes in the fair value of the issuer's equity shares. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. On November 7, 2003, the FASB deferred the classification and measurement provisions of SFAS No. 150 as they apply to certain mandatory redeemable non-controlling interests. This deferral is expected to remain in effect while these provisions are further evaluated by the FASB. The Company has not entered into or modified any financial instruments covered by this statement after May 31, 2003 and the application of this standard is not expected to have a material impact on the Company's financial position or results of operations.

On October 13, 2004, the FASB concluded that Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("Statement 123R"), which would require all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value, would be effective for public companies (except small business issuer as defined in SEC Regulation S-B) for interim or annual periods beginning after June 15, 2005. Retroactive application of the requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("Statement 123"), not Statement 123R, to the beginning of the fiscal year that includes the effective date would be permitted, but not required. Note 5 - "Accounting for Stock Based Compensation" sets forth the pro forma effect on net income and earnings per share assuming Avid had applied the fair value recognition provisions of Statement 123. The retroactive provisions permitted under this conclusion will not impact Avid since the first interim period that Statement 123R will be effective for Avid will be the third quarter of 2005.

OVERVIEW

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

Make Media. Our Video and Film Editing and Effects ("Video") segment offers digital, non-linear video and film editing systems and 3D and special effects software that enable users to manipulate moving pictures and sound in a faster, easier, more creative, and more cost-effective manner than using traditional analog tape-based systems. Non-linear systems allow editors to access material instantaneously rather than requiring them to work sequentially. Our Professional Audio ("Audio") segment, Digidesign, offers digital audio software applications and hardware systems for music, film, television, video, broadcast, streaming media, and web development. These systems are based upon proprietary Digidesign/Avid audio hardware, software, and control surfaces, and allow users to record, edit, mix, process, and master audio in an integrated manner.

Manage Media. We provide complete network, storage, and database solutions based on our Avid Unity MediaNetwork technology. This technology enables users to simultaneously share and manage media assets throughout a project or organization. The ability to effectively manage digital media assets is a critical component of success for many broadcast and media companies with multiple nonlinear editing workstations in a range of geographic locations. As a result, professionals can collaborate seamlessly on all production elements, and streamline the process for cost-effectively delivering compelling media experiences and quickly "re-purposing" or finding new uses or markets for media assets.

Move Media. We offer products that allow our customers to distribute media over multiple platforms - including air, cable or satellite, or through the Internet. In addition, we provide technology for playback directly to air for broadcast television applications. Many of our products also support the broadcast of streaming Internet video.

Our products are used worldwide in production and post-production facilities; film studios; network, affiliate, independent and cable television stations; recording studios; advertising agencies; government and educational institutions; corporate communication departments; and game developers and Internet professionals. Projects produced by our customers using our products have been honored with Oscar(R), Emmy(R), and Grammy(R) awards, as well as a host of other international awards. In addition, we have received numerous awards for technical innovations, including Oscars, Emmys and a Grammy. (Oscar is a registered trademark and service mark of the Academy of Motion Picture Arts and Sciences. Emmy is a registered trademark of ATAS/NATAS. Grammy is a registered trademark of The National Academy of Recording Arts and Sciences, Inc.)

An important part of our strategy for the past few years has included expanding and enhancing our product lines and increasing revenues through both acquisitions and internal development of products. In January 2004, we acquired Munich, Germany-based NXN Software AG ("NXN"), a leading provider of asset and production management systems specifically targeted for the entertainment and computer graphics industries. This acquisition expands Avid's offering in digital asset management by enabling our film and video post-production, broadcast, audio and 3D animation customers to leverage the workflow capabilities of the NXN Alienbrain(R) product line. NXN has been integrated into our Video segment. In August 2004, we completed the acquisition of Irwindale, CA-based M-Audio, a leading provider of digital audio and MIDI solutions for electronic musicians and audio professionals. We have integrated M-Audio into our Audio segment as a business within our Digidesign audio division, and will market its line of audio products alongside Digidesign's digital audio workstations for the professional and home/hobbyist markets. Finally, in September 2004, we acquired Avid Nordic AB, a Sweden-based reseller of Avid products operating in the Nordic and Benelux regions of Europe. This acquisition allows us to directly serve customers in this region.

In April 2004, we introduced two new audio control surfaces as part of our Digidesign Pro Tools audio product line. D-Control is a high-end, expandable control surface offering instant access to a large number of mixing parameters while mixing or recording audio. Together with the Pro Tools|HD system, D-Control is the basis of the ICON audio production system. Digidesign Command|8 is a semi-professional, small-format control surface which can be used with

Digidesign Pro Tools|HD, Pro Tools LE, and Avid Media Composer systems. Both control surfaces include integrated, high-quality audio monitoring.

In June 2004, we introduced Avid Xpress Studio Complete and Avid Xpress Studio Essentials, end-to-end content creation suites for DV professionals. Avid Xpress Studio fully integrates Avid Xpress Pro video editing, Avid Pro Tools LE audio production, Avid 3D animation, Avid FX compositing and titling, and Avid DVD authoring software, and offers a choice of Digidesign Mbox or Digidesign 002 and Avid Mojo hardware for tactile audio control and expanded video I/O. Avid Xpress Studio suites deliver best-of-breed software, hardware, and interoperability at an affordable price.

Also introduced in June 2004, SOFTIMAGE|XSI(R) version 4.0 is the latest release of the industry-leading non-linear 3-D production environment. Version 4.0 delivers advanced toolsets, performance enhancements, and significant advancements to the core architecture of the software, including new customization, project management, and workgroup capabilities. To bring Softimage's professional animation software to a wider audience, the new version is available in three distinct configurations: XSI Advanced, XSI Essentials, and the new entry-level, very affordable XSI Foundation.

In 2004, with the introduction of Avid DNxHD technology, we continued to expand our technology leadership in combining high-quality video and efficient file sizes. Avid DNxHD encoding delivers 8- and 10-bit mastering-quality, high-definition (HD) images at bandwidths normally associated with uncompressed, standard-definition (SD) media. High-efficiency Avid DNxHD formats enable real-time HD collaboration using today's Avid Unity MediaNetwork shared storage environments, supporting workflows for HD that postproduction and broadcast professionals have come to expect for SD. Avid DNxHD technology made its debut with the September 2004 release of Avid DS Nitris version 7.5, expanding the capabilities of Avid's high-performance finishing and mastering system.

In April 2003, we introduced a new family of products based on our Digital Nonlinear Accelerator (Avid DNA) architecture: a powerful series of computer hardware products engineered specifically for media processing. When paired with our industry-leading nonlinear editing software, the Avid DNA family enables professionals to achieve real-time functionality and superior image and sound quality when capturing, editing, finishing, and outputting DV, SD, and HD video formats. The Avid DNA family includes the Media Composer Adrenaline and Avid NewsCutter Adrenaline FX systems, both of which began shipping in the second quarter of 2003, and the Avid Xpress Pro and Avid Mojo software/hardware tandem, which began shipping in the third quarter of 2003. The Avid Media Composer Adrenaline system leverages the key features of its predecessors and offers improved quality, speed, and performance in high-pressure, time-sensitive television and film production environments. The Avid NewsCutter Adrenaline FX system expands news editing capabilities by offering speed, reliability, and a range of professional news-focused editing and workflow features in a turnkey PC-based platform. Avid Xpress Pro software and Avid Mojo hardware deliver professional video, film, and audio editing capabilities--including automatic color correction and real-time digital and analog output, and are qualified to run on a wide range of Windows-based CPUs as well as on the Power Mac G5 platform. The Avid DNA family also includes the Avid DS Nitris system, which began shipping in the fourth quarter of 2003. The Avid DS Nitris product is a powerful, high-resolution finishing workstation offering real-time effects and color correction.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles and the Company's discussion and analysis of its financial condition and results of operations requires the Company's management to make judgments, assumptions, and estimates that affect the amounts reported in its consolidated financial statements and accompanying notes. Note 1 of the Notes to Consolidated Financial Statements in the Company's 2003 Form 10-K describes the significant accounting policies and methods used in the preparation of the Company's consolidated financial statements. Management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates.

Management believes the Company's critical accounting policies are those related to revenue recognition and allowances for product returns and exchanges, allowance for bad debts and reserves for recourse under financing transactions, inventories and income taxes. Management believes these policies to be critical because they are both important to the portrayal of the Company's financial condition and results of operations, and they require management to make judgments and estimates about matters that are inherently uncertain. Additional information about these critical accounting policies may be found in

the Company's 2003 Form 10-K in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Critical Accounting Policies and Estimates."

RESULTS OF OPERATIONS

Net Revenues

Our net revenues are derived mainly from the sales of computer-based digital, nonlinear media editing systems and average selling prices include the impact of price changes, discounting and mix (higher or lower-end) of products sold. Average selling prices also include the impact of related peripherals, licensing of related software, and sales of related software maintenance contracts. This market has been, and we expect it to continue to be, highly competitive. A significant portion of these revenues is generated by sales near the end of each quarter, which can impact our ability to accurately forecast revenues on a quarterly basis. Increasingly, revenues are also being derived from sales of "solutions" encompassing multiple products and networking capabilities that enable users to share and manage media throughout a project or organization. Such solution sales may include training and installation services, as well as workflow management assistance, to be provided by us or a third party. Depending upon the complexity of the arrangement and the level of our involvement, the revenues resulting from these solution sales may be deferred for one or more quarters while the services are being performed.

Net revenues increased by \$28.3 million (23.8%) to \$147.4 million for the quarter ended September 30, 2004 from \$119.1 million for the same quarter in 2003. Revenues in our Video business increased \$8.9 million or 10.3%, while revenues in our Audio business grew by \$19.4 million or 59.8%. The growth in the Video business reflects increased sales volume of our products, specifically the Avid DNA family of products released in the second through fourth quarters of 2003 as well as increased service revenues. Revenue growth in our Audio segment primarily reflects increased sales volume of our products including the ProTools TDM product family and products sold into the Pro Tools LE home/hobbyist market. The Audio segment revenue increase also includes the impact of the acquisition of M-Audio in the current quarter. Revenue growth in both segments was also helped by higher average selling prices in 2004 as compared to 2003. Average selling prices include the impact of price changes, discounting and mix (higher or lower-end) of products sold. Average selling prices also include the impact of related peripherals, licensing of related software, and sales of related software maintenance contracts. Foreign currency exchange rate changes had a favorable impact on both segments in 2004 compared to 2003.

Net revenues increased by \$70.0 million (20.3%) to \$414.6 million for the nine months ended September 30, 2004 from \$344.6 million for the nine months ended September 30, 2003. Revenues in our Video business increased \$40.6 million or 16.7%, while revenues in our Audio business grew by \$29.5 million or 29.1%. The growth in both segments is due to the factors mentioned above.

Net revenues derived through indirect channels were approximately 69% and 73% of net revenues for the quarters ended September 30, 2004 and 2003, respectively. Indirect channel revenues were approximately 72% and 74% of net revenues for the nine-month periods ended September 30, 2004 and 2003, respectively. We generally sell directly to our broadcast customers and expect this will be an area of potential revenue growth in the future.

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

Sales in the Americas accounted for 54% of our third quarter 2004 and 2003 net revenues. For the nine-month periods ended September 30, 2004 and 2003, sales in the Americas accounted for 55% and 56% of net revenues, respectively. For the three- and nine-month periods ended September 30, 2004, Americas sales increased by approximately \$15.0 million or 23.2% and \$34.5 million or 18.0%, respectively, compared to the same periods in 2003.

Sales in the Europe and Asia Pacific regions accounted for 46% of our third quarter 2004 and 2003 net revenues. For the nine-month periods ended September 30, 2004 and 2003, sales in the Europe and Asia Pacific regions accounted for 45% and 44% of net revenues, respectively. For the three- and nine-month periods ended September 30, 2004, Europe and Asia Pacific regions sales increased by approximately \$13.3 million or 24.4% and \$35.6 million or

23.3%, respectively, compared to the same periods in 2003, with the impact of currency translation being a favorable factor, particularly in Europe.

Gross Profit

Costs of revenues consists primarily of costs associated with the procurement of components; post-sales customer support costs related to maintenance contract revenue and other services; the assembly, testing, and distribution of finished products; warehousing; and royalties for third-party software included in our products. The resulting gross margin fluctuates based on factors such as the mix of products sold, the cost and proportion of third-party hardware and software included in the systems sold, the offering of product upgrades, price discounts and other sales promotion programs, the distribution channels through which products are sold, the timing of new product introductions, sales of aftermarket hardware products such as disk drives, and currency exchange rate fluctuations.

Our gross margin increased to 57.4% in the third quarter of 2004 from 55.7% for the same period of 2003. Margins in both segments improved with the most significant factors being a favorable product mix in the Audio segment and favorable overhead absorption in the Video segment due to higher revenue volume. Additionally, there was a positive impact on revenue from currency exchange rates with no material offsetting impact on costs of revenues as most of our manufacturing costs are transacted in U.S. dollars.

Our gross margin increased to 57.1% for the nine months ended September 30, 2004 from 54.8% for the same period in 2003. Margins in both the Video and Audio segments improved, with the most significant factors being due to the factors mentioned above.

Research and Development

Research and development expenses increased by \$3.1 million (14.8%) in the third quarter of 2004 compared to the same period in 2003 and increased by \$5.2 million (8.1%) for the nine months ended September 30, 2004 compared to the same period in 2003. The increase in the three-month period ended September 30, 2004 was primarily the result of personnel-related expenses (in part due to the acquisitions of NXN and M-Audio), partially offset by decreased spending on computer supplies and hardware for the development of new products. The increase in the nine-month period ended September 30, 2004 was primarily the result of personnel related expenses (in part due to the acquisition of NXN and to a lesser extent M-Audio), partially offset by decreased fees associated with outsourcing certain engineering activities. Research and development expenses decreased to 16.1% of net revenues in the third quarter of 2004 compared to 17.4% in the same quarter of 2003 and decreased to 16.6% of net revenues for the nine months ended September 30, 2004 from 18.5% for the same period in 2003 due to the increased revenue base.

Marketing and Selling

Marketing and selling expenses increased by \$5.5 million (19.6%) in the third quarter of 2004 compared to the same period in 2003 and increased by \$16.0 million (19.7%) for the nine months ended September 30, 2004 compared to the same period in 2003. The increase in both periods was primarily the result of personnel-related expenses (in part due to the acquisition of NXN and M-Audio), trade show and other marketing programs and increased travel expenses. The increase in the nine-month period ended September 30, 2004 also included higher net foreign exchange losses (specifically, transaction and re-measurement gains and losses on net monetary assets denominated in foreign currencies, offset by hedging gains and losses), which are included in marketing and selling expenses. Marketing and selling expenses decreased to 22.7% of net revenues in the third quarter of 2004 compared to 23.5% in the same quarter of 2003 and decreased to 23.4% of net revenues for the nine months ended September 30, 2004 from 23.5% for the same period in 2003 due to the increased revenue base.

General and Administrative

General and administrative expenses increased by \$1.7 million (30.3%) in the third quarter of 2004 compared to the same period in 2003 and increased by \$2.8 million (17.0%) for the nine months ended September 30, 2004 compared to the same period in 2003. The increase in both 2004 periods was primarily due to higher personnel-related costs and to higher audit fees related to compliance with the Sarbanes-Oxley Act of 2002. General and administrative expenses increased to 5.0% of net revenues in the third quarter of 2004 compared to 4.8% in the same quarter of 2003 due to the factors mentioned above and decreased to

4.7% from 4.8% of net revenues for the nine-month period ended September 30, 2004 due to the increased revenue base.

Restructuring and Other Costs, Net

In March 2003, we implemented a restructuring program under which 48 employees worldwide were terminated, and a leased facility in California was vacated. In connection with these actions, during the first three months of 2003 we recorded a charge of \$1.2 million for employee terminations and \$0.6 million for unutilized space in Santa Monica that included a write-off of leasehold improvements of \$0.4 million.

Amortization of Acquisition-Related Intangible Assets

In August 2004, we acquired M-Audio, a leading provider of digital audio and MIDI solutions for electronic musicians and audio professionals, for cash of \$79.7 million and stock and stock options with a fair value of \$96.5 million. As part of the purchase accounting allocation, we recorded \$38.4 million of identifiable intangible assets, consisting of completed technologies, customer relationships, a trade name and a non-compete covenant. The unamortized balance of the identifiable intangible assets relating to this acquisition was \$37.9 million at September 30, 2004.

In September 2004, we acquired Avid Nordic AB for cash, net of cash acquired, of Euro 6.1 million (\$7.4 million). As part of the purchase price allocation we recorded \$4.7 million of identifiable intangible assets consisting solely of customer relationships. The unamortized balance was \$4.6 million at September 30, 2004.

In January 2004, we acquired NXN Software AG, a leading provider of asset and production management systems specifically targeted for the entertainment and computer graphics industries, for cash consideration of (euro)35 million (\$43.7 million). As part of the purchase accounting allocation, we recorded \$7.2 million of identifiable intangible assets, consisting of completed technologies, customer relationships and a trade name. The unamortized balance of the identifiable intangible assets relating to this acquisition was \$6.3 million at September 30, 2004.

From 2000 to 2003, we recorded intangible assets as we acquired the following companies or their assets: Rocket Network, Inc. and Bomb Factory Digital, Inc. in 2003; iKnowledge, Inc. in 2002; iNews, LLC in 2001; and The Motion Factory, Inc. in 2000. In connection with these acquisitions, we allocated \$7.6 million to identifiable intangible assets consisting of completed technologies and work force, and \$2.2 million to goodwill. As of January 1, 2002, in connection with the adoption of SFAS 142, we reclassified \$1.1 million of a previously recorded assembled work force intangible to goodwill and, as a result, ceased amortizing this amount. The unamortized balance of the identifiable intangible assets relating to these acquisitions was \$1.2 million at September 30, 2004.

Included in the operating results for the quarters ended September 30, 2004 and 2003 is amortization for all of these intangible assets of \$1.1 million and \$0.3 million, respectively; the nine-month periods ended September 30, 2004 and 2003 include amortization of \$2.1 million and \$1.0 million, respectively. The increased levels of amortization primarily reflect the addition of the M-Audio assets acquired in August 2004 and the NXN assets acquired in January 2004.

Other Income, Net

Other income, net generally consists of interest income and interest expense. Other income (expense), net for the third quarter of 2004 increased \$0.1 million to \$0.7 million compared to \$0.6 million for the third quarter of 2003. The increase was primarily due to higher interest income, partially off by higher interest expense in the 2004 period. For the nine-month period ended September 30, 2004, other income, net decreased \$0.6 million, from \$1.3 million to \$0.7 million, as compared to the same period in 2003. The decrease was primarily due to a charge in the first quarter of 2004 of \$1.1 million related to reaching a pending settlement of a lawsuit, partially offset by higher interest income earned on higher average cash, cash equivalents, and marketable securities balances.

Provision for Income Taxes

We recorded a net tax benefit of approximately \$(0.1) million, and a tax provision of \$0.3 million for the quarters ended September 30, 2004 and 2003, respectively. The net tax benefit for the quarter ended September 30, 2004 includes an adjustment for refunds of approximately \$0.2 million of taxes previously paid in Canada. Other than this refund, the tax provision for all

periods presented was substantially comprised of taxes payable by our foreign subsidiaries with only alternative minimum tax provided on anticipated U.S. taxable profits.

The tax provisions for the nine-month periods ending September 30, 2004 and 2003 were \$0.1 million and \$0.9 million, respectively. The lower tax provision in the first nine months of 2004 reflects a first-quarter reversal of a \$1.2 million tax reserve resulting from the expiration of the statute of limitation on that reserve item and the third-quarter above mentioned refund. Other than these adjustments, the tax provision for all periods presented was substantially comprised of taxes payable by our foreign subsidiaries with only alternative minimum tax provided on anticipated U.S. taxable profits.

The tax provision in each quarter is significantly affected by net changes in the valuation allowance against our deferred tax assets. Regular federal income taxes resulting from anticipated U.S. profits have been offset by the utilization of deductions from acquisition-related temporary differences and net operating loss carry-forwards; the tax provision benefit of utilizing these items results from the corresponding net reduction in the valuation allowance. However, due to the remaining level of deferred tax assets and the level of related historical taxable income, we have determined that the uncertainty regarding the realization of these remaining assets is sufficient to warrant the continued establishment of a valuation allowance against nearly all of our deferred tax assets.

LIQUIDITY AND CAPITAL RESOURCES

We have funded our operations to date through both private and public sales of equity securities, including stock option exercises from our employee stock plans, as well as through cash flows from operations. As of September 30, 2004, our principal sources of liquidity included cash, cash equivalents and marketable securities totaling \$120.1 million.

With respect to cash flow, net cash provided by operating activities was \$57.1 million for the nine months ended September 30, 2004 compared to \$40.7 million for the same period in 2003. During the nine months ended September 30, 2004, net cash provided by operating activities primarily reflects net income adjusted for depreciation and amortization as well as increases in accounts receivable, accounts payable and deferred revenue. During the nine months ended September 30, 2003, net cash provided by operating activities primarily reflects net income adjusted for depreciation and amortization as well as an increase in deferred revenue and a decrease in accounts receivable, partially offset by a decrease in accounts payable.

At September 30, 2004 and December 31, 2003, we held inventory in the amounts of \$54.9 million and \$38.3 million, respectively. These balances include stockroom, spares, and demonstration equipment inventories at various locations, and inventory at customer sites related to shipments for which we have not yet recognized revenue. The increase in the current quarter reflects primarily the acquisitions of M-Audio and Avid Nordic AB. We review all inventory balances regularly for excess quantities or potential obsolescence and make appropriate adjustments to write-down the inventories to reflect their estimated realizable value.

Accounts receivable increased by \$25.2 million to \$94.4 million at September 30, 2004 from \$69.2 million at December 31, 2003, driven primarily by the year-over-year increase in net revenues but also to the acquisition of M-Audio. These balances are net of allowances for sales returns, bad debts and customer rebates, all of which we estimate and record based on historical experience. Days sales outstanding in accounts receivable increased from 49 days at December 31, 2003 to 58 days at September 30, 2004. The increase in days sales outstanding is primarily attributable to the timing of shipments during the quarter and an increase in deferred maintenance contract billings for which revenue is recognized ratably in future quarters.

Net cash flow used in investing activities was \$129.8 million for the nine-month period ending September 30, 2004 compared to \$53.1 million for the same period in 2003. During the nine-month period ended September 30, 2004, we paid cash of \$134.2 million for the purchases of NXN, M-Audio and Avid Nordic AB, net of cash acquired. Also, a payment of \$1.0 million for our 2003 acquisition of Bomb Factory Digital was made in early 2004, after resolution of acquisition-related contingencies, with the final payments totaling \$0.4 million due through December 2004. We purchased \$9.8 million of property and equipment during the nine months ended September 30, 2004 compared to \$4.6 million in the same period of 2003. Purchases of property and equipment in both 2004 and 2003 were primarily of computer hardware and software to support research and development activities and our information systems. Our full year capital spending for 2004 is currently expected to be about \$12.0 million, including purchases of hardware and software to support activities in the research and development, information systems and manufacturing areas, as well as for facilities renovations.

During the nine months ended September 30, 2004 and 2003, we generated cash of \$13.2 million and \$44.9 million, respectively, from the issuance of common stock related to the exercise of stock options and our employee stock purchase plan.

In connection with restructuring efforts during 2001 and prior periods, as well as with the identification in 2003 and 2002 of excess space in various locations, we also have cash obligations of approximately \$15.4 million under leases for which we have vacated the underlying facilities. We have an associated restructuring accrual of \$3.8 million at September 30, 2004 representing the excess of our lease commitments on space no longer used by us over expected payments to be received on subleases of such facilities. These payments will be made over the remaining terms of the leases, which have varying expiration dates through 2010, unless we are able to negotiate an earlier termination. All restructuring related payments will be funded through working capital.

Our cash requirements vary depending upon factors such as our planned growth, capital expenditures, the possible acquisition of businesses or technologies complementary to our business and obligations under past restructuring programs. We believe our existing cash, cash equivalents, marketable securities and funds generated from operations will be sufficient to meet our operating cash requirements for at least the next twelve months. In the event we require additional financing, we believe that we will be able to obtain such financing; however, there can be no assurance that we would be successful in doing so, or that we could do so on favorable terms.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2003, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 150, "Accounting For Certain Financial Instruments with Characteristics of Both Liabilities and Equity", which establishes standards for how an issuer of financial instruments classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) if, at inception, the monetary value of the obligation is based solely or predominantly on a fixed monetary amount known at inception, variations in something other than the fair value of the issuer's equity shares or variations inversely related to changes in the fair value of the issuer's equity shares. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. On November 7, 2003, the FASB deferred the classification and measurement provisions of SFAS No. 150 as they apply to certain mandatory redeemable non-controlling interests. This deferral is expected to remain in effect while these provisions are further evaluated by the FASB. The Company has not entered into or modified any financial instruments covered by this statement after May 31, 2003 and the application of this standard is not expected to have a material impact on the Company's financial position or results of operations.

On October 13, 2004, the FASB concluded that Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("Statement 123R"), which would require all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value, would be effective for public companies (except small business issuer as defined in SEC Regulation S-B) for interim or annual periods beginning after June 15, 2005. Retroactive application of the requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("Statement 123"), not Statement 123R, to the beginning of the fiscal year that includes the effective date would be permitted, but not required. Note 5 - "Accounting for Stock Based compensation" sets forth the pro forma effect on net income and earnings per share assuming Avid had applied the fair value recognition provisions of Statement 123. The retroactive provisions permitted under this conclusion will not impact Avid since the first interim period that Statement 123R will be effective for Avid will be the third quarter of 2005.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

Some of the statements in this Form 10-Q relating to our future performance constitute forward-looking statements. Such forward-looking statements are based upon management's current expectations and involve known and unknown risks. Realization of any of these risks may cause actual results to differ materially from the results described in the forward-looking statements. Certain of these risks are as follows:

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

We recently introduced several new digital non-linear products based on our Digital Nonlinear Accelerator architecture, including our next-generation Media Composer (Media Composer Adrenaline) and NewsCutter (NewsCutter Adrenaline) systems, as well as Avid Xpress Pro with Avid Mojo and Avid DS Nitris hardware. We will need to continue to focus marketing and sales efforts on educating potential customers and our resellers about the uses and benefits of these products. The future success of certain of these products, such as Avid DS Nitris, which enable high-definition production, will also depend on consumer demand for appliances, such as television sets and monitors, that utilize the high definition standard. In addition, there are several other risks involved with offering new products in general, including, without limitation, the possibility of defects or errors, failure to meet customer expectations, delays in shipping new products and the introduction of similar products by our competitors. At the same time, the introduction and transition to new products could have a negative impact on the market for our existing products, which could adversely affect our revenues and business.

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

We are currently building our presence in the digital broadcast market and have augmented our NewsCutter product offering with the Avid Unity for News products, and the server, newsroom, and browser products obtained in the Pluto and iNews acquisitions. The broadcast market is distinguished from our traditional video business in that turnkey, fully integrated, complex solutions (including the configuration of unique workflows), rather than discrete point products, are frequently required by the customer. Success in this market will require, among other things, creating compelling solutions and developing a strong, loyal customer base.

In addition, large, complex broadcast orders often require us to devote significant sales, engineering, manufacturing, installation, and support resources to ensure their successful and timely fulfillment. As the broadcast market converts from analog to digital, our strategy has been to build our broadcast solutions team in response to customer demand. To the extent that customer demand for our broadcast solutions exceeds our expectations, we may encounter difficulties in the short run meeting our customers' needs. Meanwhile, our competitors may devote greater resources to the broadcast market than we do, or may be able to leverage their market presence more effectively. If we are unsuccessful in capturing and maintaining a share of this digital broadcast market or in predicting and satisfying customer demand, our business and revenues could be adversely affected.

Our revenues are becoming increasingly dependent on sales of large, complex solutions.

We expect sales of large, complex solutions to continue to constitute a material portion of our net revenue, particularly as news stations convert from analog, or tape-based, processes to digital formats. Our quarterly and annual revenues could fluctuate significantly if:

- o sales to one or more of our customers are delayed or are not completed within a given quarter;
- o the contract terms preclude us from recognizing revenue during that quarter;
- o news stations' migrations from analog processes to digital formats slows down;
- o we are unable to complete complex customer installations on schedule;
- o our customers reduce their capital investments in our products in response to slowing economic growth; and
- o any of our large customers terminate their relationship with us or significantly reduce the amount of business they do with us.

Our products are complex, and may contain errors or defects resulting from such complexity.

As we continue to expand our product offerings to include not only point products but also end-to-end solutions, our products have grown increasingly complex and, despite extensive testing and quality control, may contain errors or defects. Such errors or defects could cause us to issue corrective releases and could result in loss of revenues, delay of revenue recognition, increased product returns, lack of market acceptance, and damage to our reputation.

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

The digital video, audio, and 3D markets are highly competitive, with limited barriers to entry, and are characterized by pressure to reduce prices, incorporate new features, and accelerate the release of new products. Some of our current and potential competitors have substantially greater financial, technical, distribution, support, and marketing resources than we do. Such competitors may use these resources to lower their product costs, allowing them to reduce prices to levels at which we could not operate profitably. Delays or difficulties in product development and introduction may also harm our business. If we are unable to compete effectively in our target markets, our business and results of operations could suffer.

In addition to price, our products must also compete favorably with our competitors' products in terms of reliability, performance, ease of use, range of features, product enhancements, reputation and training.

New product announcements by our competitors and by us also could have the effect of reducing customer demand for our existing products. New product introductions also require us to devote time and resources to training our sales channels in product features and target customers, with the temporary result that the sales channels have less time to devote to selling our products.

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

Products from our Digidesign division have captured a significant portion of the professional audio market, due in large part to a series of successful product introductions. Our future success will depend in part upon our ability to offer, on a timely and cost-effective basis, new audio products and enhancements of our existing audio products. This can be a complex and uncertain process, and we could experience design, manufacturing, marketing, or other difficulties that delay or prevent the introduction of new or enhanced products, or the integration of acquired products, which, in turn, could harm our business.

At M-Audio, revenue has historically been derived from sales through the same or similar channels as Digidesign. However, M-Audio is currently expanding its sales channel to include sales through the broader consumer market channel. While we are not anticipating that a significant portion of our revenues will come through this channel in the near term, our overall experience addressing the consumer market channel is limited, and there are some costs related to pursuing the consumer market channel which are, to a certain extent, fixed. As a result, we may be unable to adjust our spending in a timely manner to compensate for any unexpected revenue shortfall from this channel, which could harm our operating results.

When we acquire other companies or businesses, we become subject to risks that could hurt our business.

We periodically acquire businesses and form strategic alliances. For example, and in January 2004, we acquired NXN Software AG, a company that manufactures asset and production management systems specifically targeted for the entertainment and computer graphics industries, and in August 2004, we acquired Midiman, Inc. (d/b/a M-Audio), a leading provider of digital audio and MIDI solutions for electronic musicians and audio professionals. The risks associated with such acquisitions, alliances, and investments include, among others:

- o the difficulty of assimilating the operations, policies and personnel of the target companies;
- o the failure to realize anticipated returns on investment, cost savings and synergies;
- o the diversion of management's time and attention;
- o the dilution existing stockholders may experience if we decide to issue shares of our common stock or other rights to purchase our common stock as consideration in the acquisition in lieu of cash;
- o the potential loss of key employees of the target company;

- o the difficulty in complying with a variety of foreign laws;
- o the impairment of relationships with customers or suppliers of the target company or our customers or suppliers; and
- o unidentified issues not discovered in our due diligence process, including product quality issues and legal contingencies.

Such acquisitions, alliances, and investments often involve significant transaction-related costs and could cause short-term disruption to normal operations. In the future we may also make debt or equity investments. If we are unable to overcome or counter these risks, it could undermine our business and lower our operating results.

Our use of independent firms and contractors to perform some of our product development and manufacturing activities could expose us to risks that could adversely impact our revenues.

Independent firms and contractors, some of whom are located in other countries, perform some of our product development and manufacturing activities. We generally own the software developed by these contractors. The use of independent firms and contractors, especially those located abroad, could expose us to risks related to governmental regulation (including tax regulation), intellectual property ownership and rights, exchange rate fluctuation, political instability and unrest, natural disasters, and other risks, which could adversely impact our revenues.

An interruption of our supply of certain products or key components from our sole source suppliers, or a price increase in such products or components, could hurt our business.

We are dependent on a number of specific suppliers for certain products and key components of our products. We purchase these sole source products and components pursuant to purchase orders placed from time to time. We generally do not carry significant inventories of these sole source products and components and have no guaranteed supply arrangements. If any of our sole source vendors should fail to produce such products or to supply or enhance such components, it could imperil our supply and our ability to continue selling and servicing products that use these components. Similarly, if any of our sole source vendors should encounter technical, operating or financial difficulties, it could threaten our supply of these products or components. While we believe that alternative sources for these products and components could be developed, or our products could be redesigned to permit the use of alternative components, an interruption of our supply could damage our business and negatively affect our operating results.

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

Qualifying and supporting our products on multiple computer platforms is time consuming and expensive.

Our software engineers devote significant time and effort to qualify and support our products on various computer platforms, including most notably, Microsoft and Apple platforms. Computer platform modifications and upgrades require additional time to be spent to ensure that our products will function properly. To the extent that the current configuration of the qualified and supported platforms changes or we need to qualify and support new platforms, we could be required to expend valuable engineering resources, which could adversely affect our operating results.

Our operating results are dependent on several unpredictable factors.

The revenue and gross profit from our products depend on many factors, including:

- o mix of products sold;
- o cost and proportion of third-party hardware included in such products;
- o product distribution channels;
- o acceptance of our new product introductions;
- o product offers and platform upgrades;
- o price discounts and sales promotion programs;
- o volume of sales of aftermarket hardware products;
- o costs of swapping or fixing products released to the market with defects;

- o provisions for inventory obsolescence;
- o competitive pressure on product prices;
- o costs incurred in connection with "solution" sales, which typically have longer selling and implementation cycles; and
- o timing of delivery of "solutions" to customers.

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

Our operating results could be harmed by currency fluctuations.

We generally derive nearly half of our revenues from customers outside of the United States. This business is, for the most part, transacted through international subsidiaries and generally in the currency of the end-user customers. Therefore, we are exposed to the risks that changes in foreign currency could adversely impact our revenues, net income (loss), and cash flow. To hedge against the foreign exchange exposure of certain forecasted receivables, payables and cash balances of our foreign subsidiaries, we enter into foreign currency forward-exchange contracts. We record gains, and losses associated with currency rate exchanges on these contracts in results of operations, offsetting gains and losses on the related assets and liabilities. The success of this hedging program depends on forecasts of transaction activity in the various currencies. To the extent that these forecasts are over- or understated during the periods of currency volatility, we could experience currency gains or losses.

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

Our operating expense levels are based, in part, on our expectations of future revenues. Such future revenues are difficult to predict. A significant portion of our business occurs near the end of each quarter, which can impact our ability to precisely forecast revenues on a quarterly basis. Further, we are generally unable to reduce quarterly operating expense levels rapidly in the event that quarterly revenue levels fail to meet internal expectations. Therefore, if quarterly revenue levels fail to meet internal expectations upon which expense levels are based, our results of operations could be adversely affected.

Poor global macroeconomic conditions could disproportionately impact our industry.

In recent years, our customers in the media, broadcast and content-creation industries delayed or reduced their expenditures in part because of unsettled economic conditions. The revenue growth and profitability of our business depends primarily on the overall demand for our products. If global economic conditions worsen, demand for our products may weaken, and our business and results of operations could suffer.

Terrorism, acts of war, and other catastrophic events may seriously harm our business.

Terrorism, acts of war, or other catastrophic events may disrupt our business and harm our employees, facilities, suppliers, distributors, resellers or customers, which could significantly impact our revenue and operating results. The increasing presence of these threats has created many economic and political uncertainties that could adversely affect our business and stock price in ways that cannot be predicted. We are predominantly uninsured for losses and interruptions caused by terrorism, acts of war, and other conflicts and events.

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

We sell many of our video products and services, and substantially all of our audio products and services, indirectly through resellers and distributors. The loss of one or more key distributors could reduce our revenues. The resellers and distributors of our video segment products typically purchase Avid software and Avid-specific hardware from us, and third-party components from various other vendors, in order to produce complete systems for resale. Any disruption to our resellers and distributors, or their third-party suppliers, could reduce our revenues. Increasingly, we are distributing our products directly, which could put us in competition with our resellers and distributors and could adversely affect our revenues. In addition, our resellers could diversify the manufacturers from whom they purchase products to sell to the final end-users, which could lead to a weakening of our relationships with our resellers and could adversely affect our revenues.

Most of the resellers and distributors of our video products are not granted rights to return products after purchase, and actual product returns from such resellers and distributors have been insignificant to date. However, our revenue from sales of audio products is generally derived from transactions with distributors and authorized resellers that typically allow limited rights of return, inventory stock rotation and price protection. Accordingly, reserves for estimated returns, exchanges and credits for price protection are provided, as a reduction of revenues, upon shipment of the related products to such distributors and resellers, based upon our historical experience. To date, actual returns have not differed materially from management's estimates. However, if returns of our audio segment products were to exceed estimated levels, our revenues and operating results could be adversely impacted.

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

Our success depends upon the services of a number of key employees including members of our executive team and those in certain technical positions. The loss of the services of one or more of these key employees could harm our business. Our success also depends upon our ability to attract highly skilled new employees. Competition for such employees is intense in the industries and geographic areas in which we operate. In the past, we have relied on our ability to grant stock options as one mechanism for recruiting and retaining highly skilled talent. Recent proposed accounting regulations requiring the expensing of stock options may impair our future ability to provide these incentives without incurring significant compensation costs. If we are unable to compete successfully for our key employees, our business could suffer.

Our websites could subject us to legal claims that could harm our business.

Some of our websites provide interactive information and services to our customers. To the extent that materials may be posted on and/or downloaded from these websites and distributed to others, we may be subject to claims for defamation, negligence, copyright or trademark infringement, personal injury, or other theories of liability based on the nature, content, publication or distribution of such materials. In addition, although we have attempted to limit our exposure by contract, we may also be subject to claims for indemnification by end users in the event that the security of our websites is compromised. As these websites are available on a worldwide basis, they could potentially be subject to a wide variety of international laws.

Regulations could be enacted that restrict our Internet initiatives.

Federal, state, and international authorities may adopt new laws and regulations governing the Internet, including laws and regulations covering issues such as privacy, distribution, and content. For example, the European Union has issued several directives regarding privacy and data protection, including the Directive on Data Protection and the Directive on Privacy and Electronic Communications. The enactment of legislation implementing such directives by member countries is ongoing. The enactment of this and similar legislation or regulations could impede the growth of the Internet, harm our Internet initiatives, require changes in our sales and marketing practices and place additional financial burdens on our business.

We could incur substantial costs protecting our intellectual property or defending against a claim of infringement.

Our ability to compete successfully and achieve future revenue growth depends, in part, on our ability to protect our proprietary technology and operate without infringing upon the intellectual property rights of others. We rely upon a combination of patent, copyright, trademark and trade secret laws, confidentiality procedures, and contractual provisions, as well as required hardware components and hardware security keys, to protect our proprietary technology. However, our means of protecting our proprietary rights may not be adequate. In addition, the laws of certain countries do not protect our proprietary technology to the same extent as do the laws of the United States. From time to time unauthorized parties have obtained, copied, and used information that we consider proprietary. Policing the unauthorized use of our proprietary technology is costly and time-consuming and we are unable to measure the extent to which piracy of our software exists. We expect software piracy to be a persistent problem.

We occasionally receive communications suggesting that our products may infringe the intellectual property rights of others. It is our practice to investigate the factual basis of such communications and negotiate licenses where appropriate. While it may be necessary or desirable in the future to obtain licenses relating to one or more products or relating to current or future technologies, we may be unable to do so on commercially reasonable terms.

If we are unable to protect our proprietary technology or unable to negotiate licenses for the use of others' intellectual property, our business could be impaired.

We are currently involved in various legal proceedings, including patent litigation. An adverse resolution of any such proceedings could harm our business and reduce our results of operations. See Note I, "Commitments and Contingencies" in our audited financial statements filed on Form 10-K.

Our association with industry organizations could subject us to litigation.

We are members of several industry organizations, trade associations and standards consortia. Membership in these and similar groups could subject us to litigation as a result of the group's activities. For example, in connection with our anti-piracy program, designed to enforce copyright protection of our software, we are a member of the Business Software Alliance (BSA). From time to time the BSA undertakes litigation against suspected copyright infringers. These lawsuits could lead to counterclaims alleging improper use of litigation or violation of other local law. To date, none of these law suits or counterclaims have had an adverse effect on our results of operations, but should we become involved in material litigation, our cash flows or financial position could be adversely effected.

The Sarbanes-Oxley Act of 2002 has caused our operating expenses to increase and has put additional demands on our management.

The Sarbanes-Oxley Act of 2002 and newly enacted rules and regulations of the Securities and Exchange Commission and the NASDAQ stock market impose new duties on us and our executives, directors, attorneys and independent auditors. In order to comply with the new legislation, we have had to hire additional personnel and use additional outside legal, accounting and advisory services. These actions have increased our operating expenses. In addition, the new legislation has made some corporate actions more challenging, such as proposing new or amendments to stock option plans, which now require stockholder approval, or obtaining affordable director and officer liability insurance. The added demands imposed by the new legislation may also make it more difficult for us to attract and retain qualified executive officers, key personnel and members of our board of directors.

If we experience problems with our third-party leasing program, our revenues could be adversely impacted.

We have an established leasing program with a third party that allows certain of our customers who choose to do so to finance their purchases. If this program ended abruptly or unexpectedly, some of our customers might be unable to purchase our products unless or until they were able to arrange for alternative financing, and this could adversely impact our revenues.

Our stock price may continue to be volatile.

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Market Risk

Our primary exposures to market risk are financial, including the effect of volatility in currencies on asset and liability positions and revenue and operating expenses of our international subsidiaries that are denominated in foreign currencies, and the effect of fluctuations in interest rates earned on our cash equivalents and marketable securities.

Foreign Currency Exchange Risk

We generally derive nearly half of our revenues from customers outside the United States. This business is, for the most part, transacted through international subsidiaries and generally in the currency of the end-user customers. Therefore, we are exposed to the risks that changes in foreign currency could adversely impact our revenues, net income (loss) and cash flow. To hedge against the foreign exchange exposure of certain forecasted receivables, payables and cash balances of our foreign subsidiaries, we enter into short-term foreign currency forward-exchange contracts. There are two objectives of our foreign currency forward-exchange contract program: (1) to offset any foreign exchange currency risk associated with cash receipts expected to be received from our customers over the next 30 day period and (2) to offset the impact of foreign currency exchange on the Company's net monetary assets denominated in currencies other than the U.S. dollar. These forward-exchange contracts typically mature within 30 days of purchase. We record gains and losses associated with currency rate changes on these contracts in results of operations, offsetting gains and losses on the related assets and liabilities. The success of this hedging program depends on forecasts of transaction activity in the various currencies. To the extent that these forecasts are over- or understated during the periods of currency volatility, we could experience unanticipated currency gains or losses.

For the three- and nine-month periods ended September 30, 2004, net losses resulting from forward-exchange contracts of \$0.8 million and \$0.7 million, respectively, were included in results of operations, offset by net transaction and re-measurement gains on the related asset and liabilities of \$0.6 million for the three-month period ended September 30, 2004 and net losses on the related asset and liabilities of \$0.7 million for the nine-month period ended September 30, 2004. A hypothetical 10% change in foreign currency rates would not have a material impact on our results of operations, assuming the above-mentioned forecast of foreign currency exposure is accurate, because the impact on the forward contracts as a result of a 10% change would at least partially offset the impact on the asset and liability positions of our foreign subsidiaries.

Interest Rate Risk

At September 30, 2004, we held \$120.1 million in cash, cash equivalents and marketable securities, including short-term U.S. and Canadian government and government agency obligations. Marketable securities are classified as "available for sale" and are recorded on the balance sheet at market value, with any unrealized gain or loss recorded in other comprehensive income (loss). A hypothetical 10% increase or decrease in interest rates would not have a material impact on the fair market value of these instruments due to their short maturity.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Controls and Procedures. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2004. In designing and evaluating our disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applied its judgment in evaluating the cost-benefit relationships of possible controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2004, our disclosure controls and procedures were (1) designed to ensure that material information relating to us, including our consolidated subsidiaries, is made known to our Chief Executive Officer and Chief Financial Officer by others within those entities, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On March 11, 1996, Avid was named as a defendant in a patent infringement suit filed in the United States District Court for the Western District of Texas by Combined Logic Company, a California partnership located in Beverly Hills, California. On May 16, 1996, upon Avid's motion, the suit was transferred to the United States District Court for the Southern District of New York. The complaint alleges infringement by Avid of U.S. patent number 4,258,385, and seeks injunctive relief, treble damages, costs, and attorneys' fees. This patent expired on May 15, 1999 and therefore, would not be applicable to the products currently offered by Avid. Accordingly, potential damages, if any, are limited to the period beginning March 11, 1990 (six years prior to this date of the complaint) and ending May 15, 1999. In its answer to the complaint, the Company asserted that it did not infringe the patent and that the patent is invalid. Avid argued a Motion to Dismiss this claim on November 5, 2004 and is awaiting the decision of the court. The Company is unable to quantify a range of loss in this litigation. Combined Logic Company did not specify an alleged damage amount in its complaint. As only limited discovery has been conducted to date by either side in the eight years since Combined Logic Company filed its complaint, the Company believes it does not have sufficient information to provide any meaningful estimate of the possible range of damages that Combined Logic Company might seek. The Company believes it has meritorious defenses to the complaint and intends to contest it vigorously. However, an adverse resolution of this litigation could have an adverse effect on the Company's consolidated financial position or results of operations in the period in which the litigation is resolved. No costs have been accrued for this possible loss contingency.

In March 1999, Avid and Tektronix, Inc. were sued by Glen Holly Entertainment, Inc., a Tektronix distributor, claiming that Tektronix's discontinuance of the Tektronix Lightworks product line was the result of a strategic alliance by Tektronix and Avid. Glen Holly raised antitrust and common law claims against Avid and Tektronix, and sought lost future profits, treble damages, attorneys' fees, and interest. In March 2001, the United States District Court for the District of California dismissed the anti-trust claims against both parties and the remaining common law claim against the Company was dismissed by stipulation and court order on April 6, 2001. Glen Holly subsequently appealed the lower court's decision. On September 9, 2003, a three-judge panel of the U.S. Court of Appeals for the Ninth Circuit reversed in part the lower court's dismissal and sent the antitrust claims back to the lower court for further findings. Avid and Tektronix filed a Petition for a rehearing by the three-judge panel and a rehearing by the full Ninth Circuit on September 23, 2003. The Petition was denied on December 12, 2003. On March 18, 2004, the Company entered into a settlement agreement with Glen Holly whereby each party issued a general release of all claims relating to the allegations made in this lawsuit. In consideration of the settlement, Avid agreed to make a payment to Glen Holly of \$1,050,000 and accordingly, \$985,000 was paid in March 2004 and the remaining \$65,000 was paid in April 2004. On March 19, 2004, Avid filed an application for determination of good faith settlement with the U.S. District Court requesting that it determine whether Tektronix had a right to contribution or indemnification from Avid arising from claims asserted in the lawsuit. On June 17, 2004, the U.S. District Court issued a ruling in which it determined that Tektronix had no such right. On June 24, 2004, Glen Holly filed a stipulation of dismissal with the Court, dismissing all claims alleged against the Company in this proceeding. On July 14, 2004, the court issued an order finding that the settlement agreement between Avid and Glen Holly was entered into in good faith under applicable law.

ITEM 6. EXHIBITS

- *10.1 Midiman Inc. 2002 Stock Option/Stock Issuance Plan
- *#10.2 Form of Incentive Stock Option Agreement
- *#10.3 Form of Nonstatutory Stock Option Agreement
- *#10.4 Form of Restricted Stock Agreement
- #10.5 1997 Stock Incentive Plan (incorporated by reference to the Registrant's Proxy Statement as filed with the Commission on April 6, 1998, File No. 000-21174)
- *31.1 Certification of Principal Executive Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

*31.2 Certification of Principal Financial Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

*32.1 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- -----

* Documents filed herewith

Management contract or compensatory plan

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 9, 2004

By: /s/ Paul J. Milbury

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

Date: November 9, 2004

By: /s/ Carol L. Reid

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

EXHIBIT INDEX

Exhibit No. - - - - -	Description - - - - -
*10.1	Midiman Inc. 2002 Stock Option/Stock Issuance Plan
*#10.2	Form of Incentive Stock Option Agreement
*#10.3	Form of Nonstatutory Stock Option Agreement
*#10.4	Form of Restricted Stock Agreement
#10.5	1997 Stock Incentive Plan (incorporated by reference to the Registrant's Proxy Statement as filed with the Commission on April 6, 1998, File No. 000-21174)
*31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- - - - -	
* Documents filed herewith	
# Management contract or compensatory plan	

Article 1

General Provisions

1.1. Purpose of the Plan.

This Plan is intended to promote the interests of the Corporation by providing eligible persons, who are employed by or serving the Corporation or any Parent or Subsidiary, with the opportunity to acquire a proprietary interest, or otherwise increase their proprietary interest, in the Corporation as an incentive for them to continue in such employ or service.

Capitalized terms herein shall have the meanings assigned to such terms in the attached Appendix.

1.2. Structure of the Plan.

A. The Plan shall be divided into two separate equity programs:

(i) the Option Grant Program under which eligible persons may, at the discretion of the Plan Administrator, be granted options to purchase shares of Common Stock, and

(ii) the Stock Issuance Program under which eligible persons may, at the discretion of the Plan Administrator, be issued shares of Common Stock directly, either through the immediate purchase of such shares or as a bonus for services rendered the Corporation (or any Parent or Subsidiary).

B. The provisions of Articles 1 and 4 shall apply to both equity programs under the Plan and shall govern the interests of all persons under the Plan.

1.3. Administration of the Plan.

A. The Board shall administer the Plan. However, any or all administrative functions otherwise exercisable by the Board may be delegated to the Committee. Members of the Committee shall serve for such period of time as the Board may determine and may be removed by the Board at any time. The Board may also at any time terminate the functions of the Committee and reassume all powers and authority previously delegated to the Committee.

B. The Plan Administrator shall have the authority (subject to the provisions of the Plan) to establish such rules and procedures as it may deem appropriate for proper administration of the Plan and to make such

determinations under, and issue such interpretations of, the Plan and any outstanding options or stock issued under the Plan as it may deem necessary or advisable. Decisions of the Plan Administrator shall be final and binding on all parties who have an interest in the Plan or any option grant or stock issued under the Plan.

C. The Plan Administrator shall have full authority to determine:

(i) with respect to the grants made under the Option Grant Program, which eligible persons are to receive such grants, the time or times when those grants are to be made, the number of shares to be covered by each such grant, the status of the option as either an Incentive Option or a Non-Statutory Option, the time or times when each option is to become exercisable, the vesting schedule (if any) applicable to the option shares and the maximum term for which the option is to remain outstanding, and

(ii) with respect to stock issuances made under the Stock Issuance Program, which eligible persons are to receive such issuances, the time or times when those issuances are to be made, the number of shares to be issued to each Participant, the vesting schedule (if any) applicable to the issued shares and the consideration to be paid by Participant for such shares. Each option grant or stock issuance approved by the Plan Administrator shall be evidenced by the appropriate documentation.

D. To the maximum extent permitted by law, the Corporation shall indemnify each member of the Board who acts as the Plan Administrator, as well as any other Employee of the Corporation with duties under the Plan, against expenses and liabilities (including any amount paid in settlement) reasonably incurred by the individual in connection with any claims against the individual by reason of the performance of the individual's duties under the Plan, unless the losses are due to the individual's gross negligence or lack of

good faith. The Corporation will have the right to select counsel and to control the prosecution or defense of the suit. In the event that more than one person who is entitled to indemnification is subject to the same claim, all such persons shall be represented by a single counsel, unless such counsel advises the Corporation in writing that he or she cannot represent all such persons under applicable rules of professional responsibility. The Corporation will not be required to indemnify any person for any amount incurred through any settlement unless the Corporation consents in writing to the settlement.

1.4. Eligibility. The persons eligible to participate in the Plan are as follows:

- A. Employees,
- B. members of the Board and the members of the board of directors of any Parent or Subsidiary, and
- C. independent contractors who provide services to the Corporation (or any Parent or Subsidiary).

1.5. Stock subject to the Plan.

A. The shares of Common Stock issuable under the Plan shall be shares of authorized but unissued or reacquired shares of Common Stock. The maximum number of shares of Common Stock that may be issued and outstanding or subject to options outstanding under the Plan shall not exceed 2,181,996 shares (Includes the increase of 666,396 shares approved by the Board and the Stockholders of the Corporation as of March 22, 2004.).

B. Shares of Common Stock subject to outstanding options shall be available for subsequent issuance under the Plan to the extent (i) the options expire or terminate for any reason prior to their being exercised in full or (ii) the options are cancelled in accordance with the cancellation-regrant provisions of Article 2. Unvested Shares issued under the Plan and subsequently (1) cancelled or (2) repurchased by the Corporation, at a price per share not greater than the option exercise or direct issue price paid per share, pursuant to the Corporation's repurchase rights under the Plan shall be added back to the number of shares of Common Stock reserved for issuance under the Plan and shall accordingly be available for reissuance through one or more subsequent option grants or direct stock issuances under the Plan.

C. Should any change be made to the Common Stock by reason of any stock split, stock dividend, reverse stock split, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, appropriate adjustments shall be made to (i) the maximum number and/or class of securities issuable pursuant to the Plan and (ii) the number and/or class of securities and the exercise price per share in effect under each outstanding option in order to prevent the dilution or enlargement of benefits thereunder. The adjustments determined by the Plan Administrator shall be final. In no event shall any such adjustments be made in connection with the conversion of one or more outstanding shares of the Corporation's preferred stock or warrants into shares of Common Stock.

Article 2

Option Grant Program

2.1. Exercise Price.

A. The Plan Administrator shall fix the exercise price per share. However, (a) if the option is granted to a 10% Shareholder, the exercise price per share must not be less than 110% of the Fair Market Value per share of Common Stock on the date the option is granted, (b) if a Non-Statutory Option is granted to an Optionee who is not a 10% Shareholder, the exercise price per share must not be less than 85% of the Fair Market Value per share of Common Stock on the date the option is granted and (c) if an Incentive Option is granted to an Optionee who is not a 10% Shareholder, the exercise price per share shall not be less than 100% of the Fair Market Value per share of Common Stock on the date the option is granted.

B. The exercise price shall become immediately due upon exercise of the option and shall, subject to the provisions of Section 4.1 and the documents evidencing the option, be payable in cash or check made payable to the Corporation. Should the Common Stock be registered under Section 12 of the Exchange Act at the time the option is exercised, then the exercise price (and any applicable withholding taxes) may also be paid as follows:

(i) with shares of Common Stock held for the requisite period, if any, necessary to avoid a charge to the Corporation's earnings for financial reporting purposes and valued at Fair Market Value on the Exercise Date, or

(ii) to the extent the option is exercised for Vested Shares, through a special sale and remittance procedure pursuant to which Optionee shall concurrently provide irrevocable instructions to (1) a Corporation-designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable income and employment taxes required to be withheld by the Corporation by reason of such exercise and (2) the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale.

Except to the extent such sale and remittance procedure is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

2.2. Exercise and Term of Options. Each option shall be exercisable at such time or times, during such period and for such number of shares as shall be determined by the Plan Administrator and set forth in the documents evidencing the option. However, no option shall have a term in excess of ten years measured from the date that the option is granted.

2.3. Effect of Termination of Service.

A. The following provisions shall govern the exercise of any options granted to Optionee that are outstanding at the time Optionee's Service ceases:

(i) Should Optionee's Service cease for any reason other than death, Disability or Misconduct, then each option shall remain exercisable until the close of business on the earlier of (a) the three month anniversary of the date Optionee's Service ceased or (b) the termination of the option.

(ii) Should Optionee's Service cease due to death or Disability, then each option shall remain exercisable until the close of business on the earlier of (a) the twelve month anniversary of the date Optionee's Service ceased or (b) the termination of the option.

(iii) During the limited period of post-Service exercisability, an option may only be exercised for Vested Shares. Following Optionee's cessation of Service, no additional option shares shall vest, except as otherwise specifically provided by the Plan Administrator in its sole discretion pursuant to a written agreement with Optionee. Upon the expiration of such limited exercise period or (if earlier) upon the termination of the option, the options shall terminate and cease to be outstanding for any option shares for which the options have not been exercised.

(iv) Should Optionee's Service be terminated for Misconduct or should Optionee otherwise engage in Misconduct, then each outstanding option granted to Optionee shall terminate immediately with respect to all option shares.

B. Understanding that there may be adverse tax and accounting consequences to doing so, the Plan Administrator shall have the complete discretion, exercisable either at the time an option is granted or at any time while Optionee remains in Service, to:

(i) extend the period of time for which the option is to remain exercisable following Optionee's cessation of Service, but in no event beyond the expiration of the option, and/or

(ii) permit the option to be exercised, during the applicable post-Service exercise period, not only with respect to the number of Vested Shares for which such option is exercisable at the time of Optionee's cessation of Service but also with respect to one or more additional installments in which Optionee would have vested had Optionee continued in Service.

2.4. Shareholder Rights. The holder of an option shall have no shareholder rights with respect to the shares subject to the option until such person shall have exercised the option, paid the exercise price and become the holder of record of the purchased shares.

2.5. Unvested Shares. The Plan Administrator shall have the discretion to grant options that are exercisable for Unvested Shares. Should

Optionee's Service cease while the shares issued upon the early exercise of Optionee's option are still unvested, the Corporation shall have the right to repurchase any or all of those Unvested Shares at a price per share equal to the lower of (i) the exercise price paid per share or (ii) the Fair Market Value per share on the date Optionee's Service ceased. Once the Corporation exercises its repurchase right, Optionee shall have no further shareholder rights with respect to those shares. The terms upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Plan Administrator and set forth in the document evidencing such repurchase right. Any repurchases must be made in compliance with the relevant provisions of California law. The Plan Administrator may not impose a vesting schedule upon any option grant or the shares of Common Stock subject to that option which is more restrictive than 20% per year vesting, with the initial vesting to occur not later than one year after the option is granted.

2.6. Limited Transferability of Options. An Incentive Option shall be exercisable only by Optionee during his or her lifetime and shall not be assignable or transferable other than by will or by the laws of inheritance following Optionee's death. A Non-Statutory Option may be assigned in whole or in part during Optionee's lifetime to one or more of Optionee's family members (as defined in Rule 701 promulgated by the Securities and Exchange Commission) or to Optionee's former spouse through a gift or domestic relations order. The terms applicable to the assigned portion shall be the same as those in effect for the option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate.

2.7. Incentive Options. The terms specified below shall be applicable to all Incentive Options. Except as modified by the provisions of this Section 2.7, all the provisions of Articles 1, 2 and 4 shall be applicable to Incentive Options. Options that are specifically designated as Non-Statutory Options are not subject to the terms of this Section 2.7.

A. Eligibility. Incentive Options may only be granted to Employees.

B. Dollar Limitation. The aggregate Fair Market Value of the shares of Common Stock (determined as of the respective date or dates of grant) for which one or more options granted to any Employee pursuant to the Plan (or any other option plan of the Corporation or any Parent or Subsidiary) may for the first time become exercisable as Incentive Options during any one calendar year shall not exceed \$100,000. To the extent that an Optionee's options exceed that limit, they will be treated as Non-Statutory Options (but all of the other provisions of the option shall remain applicable), with the first options that were awarded to Optionee to be treated as Incentive Options.

C. Term of Option Granted to a 10% Shareholder. If any Employee to whom an Incentive Option is granted is a 10% Shareholder, then the option term shall not exceed five years measured from the date the option is granted.

2.8. Change in Control.

A. The shares subject to each option outstanding under the Plan at the time of a Change in Control shall automatically become Vested Shares, and each such option shall, immediately prior to the effective date of the Change in Control, become exercisable for all of the shares of Common Stock at the time subject to that option. However, the shares subject to an outstanding option shall not become Vested Shares on an accelerated basis if and to the extent: (i) the option is to be assumed by the successor corporation (or parent thereof) or otherwise to be continued in full force and effect pursuant to the terms of the Change in Control transaction or (ii) the option is to be replaced with a cash incentive program of any successor corporation (or parent thereof) which preserves the spread existing on the Unvested Shares at the time of the Change in Control and provides for subsequent payout of that spread no later than the time Optionee would vest in those Unvested Shares or (iii) the acceleration of the vesting of such option is subject to other limitations imposed by the Plan Administrator.

B. All outstanding repurchase rights under the Option Grant Program shall terminate automatically, and the shares of Common Stock subject to those terminated rights shall immediately become Vested Shares, immediately prior to the consummation of a Change in Control, except to the extent: (i) those repurchase rights are to be assigned to the successor corporation (or parent thereof) or are otherwise to be continued in full force and effect pursuant to the terms of the Change in Control transaction, (ii) any property (including cash payments) issued with respect to Unvested Shares is to be held in escrow and released no later than as provided by the vesting schedule in effect for the Unvested Shares pursuant to the Change in Control transaction or (iii) such accelerated vesting is precluded by other limitations imposed by the Plan Administrator.

C. Immediately following the consummation of the Change in Control, all outstanding options shall terminate, except to the extent assumed by the successor corporation (or parent thereof) or otherwise continued in full force and effect pursuant to the terms of the Change in Control transaction.

D. Each option that is assumed or otherwise continued in effect in connection with a Change in Control shall be appropriately adjusted, immediately after such Change in Control, to apply to the number and class of securities which would have been issuable to Optionee in consummation of such Change in Control, had the option been exercised immediately prior to such Change in Control. Appropriate adjustments shall also be made to (i) the number and class of securities available for issuance under the Plan following the consummation of such Change in Control and (ii) the exercise price payable per share under each outstanding option, provided the aggregate exercise price payable for such securities shall remain the same. To the extent the holders of Common Stock receive cash consideration in whole or part for their Common Stock in consummation of the Change in Control, the successor corporation may, in connection with the assumption of the outstanding options under this Plan, substitute one or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per share of Common Stock in such Change in Control transaction.

E. Among its discretionary powers, the Plan Administrator shall have the ability to structure an option (either at the time the option is

granted or at any time while the option remains outstanding) so that some or all of the shares subject to that option shall automatically become Vested Shares upon the occurrence of (i) a Change in Control, (ii) another specified event and/or (iii) the Involuntary Termination of Optionee's Service within a designated period of time following a specified event. In addition, the Plan Administrator may provide that one or more of the Corporation's outstanding repurchase rights with respect to some or all of the shares held by Optionee shall terminate on an accelerated basis either upon (i) a Change in Control, (ii) another specified event, and/or (iii) the Involuntary Termination of Optionee's Service within a designated period of time following a specified event, and the shares subject to those terminated rights shall become Vested Shares at that time.

F. The portion of any Incentive Option accelerated in connection with a Change in Control shall remain exercisable as an Incentive Option only to the extent the \$100,000 limitation set forth in Section 2.7(B) is not exceeded. To the extent such dollar limitation is exceeded, the accelerated portion of such option shall be exercisable as a Non-Statutory Option under the federal tax laws.

2.9. Cancellation and Regrant of Options. The Plan Administrator shall have the authority to effect, at any time and from time to time, with the consent of the affected Optionees, the cancellation of any or all outstanding options under the Plan and to grant in substitution therefor new options covering the same or different number of shares of Common Stock.

Article 3

Stock Issuance Program

3.1. Purchase Price.

A. The Plan Administrator shall fix the purchase price per share. However, (i) if shares are issued under the Stock Issuance Program to a 10% Shareholder, then the purchase price per share shall not be less than 100% of the Fair Market Value per share of Common Stock on the date of issuance or (ii) if shares are issued under the Stock Issuance Program to a Participant who is not a 10% Shareholder, then the purchase price per share shall not be less than 85% of the Fair Market Value per share of Common Stock on the date of issuance.

B. Shares of Common Stock may be issued pursuant to the Stock Issuance Program for any of the following items of consideration which the Plan Administrator may deem appropriate in each individual instance:

- (i) cash or check made payable to the Corporation,
- (ii) past services rendered to the Corporation (or any Parent or Subsidiary), or
- (iii) a promissory note to the extent permitted by

Section 4.1.

3.2. Vesting Provisions.

A. Shares of Common Stock issued pursuant to the Stock Issuance Program may, in the discretion of the Plan Administrator, be Vested Shares or may vest in one or more installments over Participant's period of Service or upon attainment of specified performance objectives. Shares of Common Stock may also be issued pursuant to the Stock Issuance Program pursuant to awards that entitle the recipients to receive those shares upon the attainment of designated performance goals or the satisfaction of specified Service requirements. However, the Plan Administrator may not impose a vesting schedule upon any shares of Common Stock issued under the Stock Issuance Program which is more restrictive than 20% per year vesting, with the initial vesting to occur not later than one year after the shares are issued.

B. Any new, substituted or additional securities or other property (including money paid other than as a regular cash dividend) which Participant may have the right to receive with respect to Participant's Unvested Shares by reason of any stock dividend, stock split, reverse stock split, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration shall be issued subject to (i) the same vesting requirements applicable to Participant's Unvested Shares and shall be treated as if they had been acquired on the same date as the Unvested Shares and (ii) such

escrow arrangements as the Plan Administrator shall deem appropriate.

C. Should Participant cease to remain in Service while one or more Unvested Shares issued pursuant to the Stock Issuance Program are outstanding or should the performance objectives not be attained with respect to one or more such Unvested Shares, then the Corporation shall have the right to repurchase the Unvested Shares at a price per share equal to the lower of (a) the purchase price paid per share or (b) the Fair Market Value per share on the date Participant's Service ceased or the performance objectives were not attained. The terms upon which such repurchase right shall be exercisable shall be established by the Plan Administrator and set forth in the document evidencing such repurchase right. Any repurchase must be made in compliance with the relevant provisions of California law.

D. The Plan Administrator may in its discretion waive the surrender and cancellation of one or more Unvested Shares (or other assets attributable thereto) which would otherwise occur upon the cessation of Participant's Service or the non-attainment of the performance objectives applicable to those shares. Such waiver may be effected at any time and shall result in the immediate vesting of Participant's interest in the shares of Common Stock as to which the waiver applies.

E. Outstanding share right awards granted pursuant to the Stock Issuance Program shall automatically terminate, and no shares of Common Stock shall actually be issued in satisfaction of those awards, if the performance goals or Service requirements established for such awards are not attained or satisfied. The Plan Administrator, however, shall have the discretionary authority to issue shares of Common Stock under one or more outstanding share right awards as to which the designated performance goals or Service requirements have not been attained or satisfied.

3.3. Shareholder Rights. Subject to the terms of the Stock Issuance Agreement, the Participant shall have full shareholder rights with respect to any shares of Common Stock issued to Participant pursuant to the Stock Issuance Program, whether or not Participant's interest in those shares is vested. Accordingly, Participant shall have the right to vote such shares and to receive any regular cash dividends paid on such shares. Cash dividends constitute taxable compensation to Participant and are deductible by the Corporation (unless Participant has made an election under Section 83(b) of the Code).

3.4. Change in Control.

A. Upon the occurrence of a Change in Control, all outstanding repurchase rights under the Stock Issuance Program shall terminate automatically, and the shares of Common Stock subject to those terminated rights shall immediately become Vested Shares, except to the extent: (i) those repurchase rights are assigned to the successor corporation (or parent thereof) or are otherwise continue in full force and effect pursuant to the terms of the transaction, (ii) the property (including cash payments) issued with respect to the Unvested Shares is held in escrow and released no later than as provided by the vesting schedule in effect for the Unvested Shares pursuant to the terms of

the Change in Control transaction, or (iii) such accelerated vesting is precluded by other limitations imposed by the Plan Administrator.

B. The Plan Administrator shall have the discretionary authority, exercisable either at the time the Unvested Shares are issued or any time while the Corporation's repurchase rights with respect to those shares remain outstanding, to provide that those rights shall automatically terminate in whole or in part on an accelerated basis, and some or all of the shares of Common Stock subject to those terminated rights shall immediately become Vested Shares, upon the occurrence of a Change in Control or another specified event or in the event that Participant's Service is Involuntarily Terminated within a designated period of time following a specified event.

Article 4

Miscellaneous Matters

4.1. Financing. The Plan Administrator may permit any Optionee or Participant to pay the exercise price for shares subject to an option granted under the Option Grant Program or the purchase price of shares issued under the Stock Issuance Program by delivering a full-recourse, interest bearing promissory note secured by the purchased shares and payable in one or more installments. The Plan Administrator, after considering the potential adverse tax and accounting consequences, shall set the remaining terms of the note. However, any promissory note delivered by a consultant must be secured by collateral in addition to the purchased shares of Common Stock. In no event may the maximum credit available to Optionee or Participant exceed the sum of (A) the aggregate option exercise price or purchase price payable for the purchased shares plus (B) any applicable income and employment tax liability incurred by Optionee or Participant in connection with the option exercise or share purchase.

4.2. First Refusal Rights. The Corporation shall have the right of first refusal with respect to any proposed disposition by Optionee or Participant (or any successor in interest) of any shares of Common Stock issued under the Plan. Such right of first refusal shall be exercisable and lapse in accordance with the terms established by the Plan Administrator and set forth in the document evidencing such right.

4.3. Tax Withholding. The Corporation's obligation to deliver shares of Common Stock upon the exercise of any options granted under the Plan or upon the issuance or vesting of any shares issued under the Plan shall be subject to the satisfaction of all applicable income and employment tax withholding requirements.

4.4. Share Escrow/Legends. Unvested Shares may, in the Plan Administrator's discretion, be held in escrow by the Corporation until the Unvested Shares vest or may be issued directly to Participant or Optionee with restrictive legends on the certificates evidencing the fact that Participant or Optionee does not have a vested right to them.

4.5. Effective Date and Term of Plan.

A. The Plan shall become effective when adopted by the Board, but no option granted under the Plan may be exercised, and no shares shall be issued under the Plan, until the Corporation's shareholders approve the Plan. If such shareholder approval is not obtained within twelve months after the date of the Board's adoption of the Plan, then all options previously granted under the Plan shall terminate, and no further options shall be granted and no shares shall be issued under the Plan. Subject to such limitation, the Plan Administrator may grant options and issue shares under the Plan at any time after the effective date of the Plan and before the date fixed herein for termination of the Plan.

B. The Plan shall terminate upon the earlier of (i) the expiration of the ten year period measured from the date the Plan is adopted by the Board or (ii) termination by the Board. All options and unvested stock

issuances outstanding at the time of the termination of the Plan shall continue in effect in accordance with the provisions of the documents evidencing those options or issuances.

4.6. Amendment or Termination.

A. The Board shall have complete and exclusive power and authority to amend or terminate the Plan or any awards made hereunder. However, no such amendment or termination of the Plan shall adversely affect the rights and obligations with respect to options or unvested stock issuances at the time outstanding under the Plan unless Optionee or Participant consents to such amendment or termination. In addition, certain amendments may require approval of the Corporation's shareholders.

B. Although there may be adverse accounting consequences to doing so, options may be granted under the Option Grant Program and shares may be issued under the Stock Issuance Program which are in each instance in excess of the number of shares of Common Stock then available for issuance under the Plan, provided any excess shares actually issued under those programs shall be held in escrow until there is obtained shareholder approval of an amendment sufficiently increasing the number of shares of Common Stock available for issuance under the Plan. If such shareholder approval is not obtained within twelve months after the date the first such excess grants or issuances are made, then (i) any unexercised options granted on the basis of such excess shares shall terminate and (ii) the Corporation shall promptly refund to Optionees and Participants the exercise or purchase price paid for any excess shares issued under the Plan and held in escrow, together with interest (at the applicable Short Term Federal Rate) for the period the shares were held in escrow, and such shares shall thereupon be automatically cancelled.

4.7. Regulatory Approvals. The implementation of the Plan, the granting of any options under the Plan and the issuance of any shares of Common Stock (A) upon the exercise of any option or (B) pursuant to the Stock Issuance Program shall be subject to the Corporation's procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the options granted, and the shares of Common Stock issued, pursuant to it.

4.8. No Employment or Service Rights. Nothing in the Plan shall confer upon Optionee or Participant any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any Parent or Subsidiary employing or retaining such person) or of Optionee or Participant, which rights are hereby expressly reserved by each, to terminate such person's Service at any time for any reason, with or without cause, unless the relationship is subject to an employment agreement.

4.9. No Restraint. Neither the grant of options nor the issuance of Common Stock under the Plan shall affect the right of the Corporation to undertake any corporate action.

4.10. Use of Proceeds. Any cash proceeds received by the Corporation from the sale of shares of Common Stock pursuant to the Plan shall be used for any corporate purpose.

4.11. Financial Reports. The Corporation shall deliver a balance sheet and an income statement at least annually to each individual holding an outstanding option granted or shares issued under the Plan, unless such individual is a key Employee whose duties in connection with the Corporation (or any Parent or Subsidiary) assure such individual access to equivalent information.

4.12. Share Reserve. The maximum number of shares of Common Stock that may be issued over the term of the Plan together with the total number of shares of Common Stock provided for under any stock bonus or similar plan of the Corporation shall not exceed 30% of the then outstanding shares (on an as if converted basis) of the Corporation unless a percentage higher than 30% is approved by at least two-thirds of the outstanding shares of the Corporation entitled to vote on such matter.

The following definitions shall be in effect under the Plan:

A. Board shall mean the Corporation's Board of Directors.

B. Change in Control shall mean a change in ownership or control of the Corporation effected through any of the following transactions:

(i) a merger, consolidation or other reorganization unless securities representing more than 50% of the total combined voting power of the voting securities of the successor corporation are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the persons who beneficially owned the Corporation's outstanding voting securities immediately prior to such transaction;

(ii) a sale, transfer or other disposition of all or substantially all of the Corporation's assets; or

(iii) the acquisition, directly or indirectly, by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation), of beneficial ownership (within the meaning of Rule 13-d3 of the Exchange Act) of securities possessing more than 50% of the total combined voting power of the Corporation's outstanding securities from a person or persons other than the Corporation.

In no event shall any public offering of the Corporation's securities be deemed to constitute a Change in Control.

C. Code shall mean the Internal Revenue Code of 1986, as amended.

D. Committee shall mean a committee of two or more Board members appointed by the Board to exercise one or more administrative functions under the Plan.

E. Common Stock shall mean the Corporation's common stock.

F. Corporation shall mean Midiman, Inc., a California corporation, or the successor to all or substantially all of the assets or voting stock of Midiman, Inc. which has assumed the Plan.

G. Disability shall mean the inability of Optionee or Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that is expected to result in death or has lasted or can be expected to last for a continuous period of twelve months or more.

H. Employee shall mean an individual who is in the employ of the Corporation (or any Parent or Subsidiary), subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.

I. Exchange Act shall mean the Securities Exchange Act of 1934, as amended.

J. Exercise Date shall mean the date on which the option shall have been exercised in accordance with the applicable option documentation.

K. Fair Market Value per share of Common Stock on any relevant date shall be determined in accordance with the following provisions:

(i) If the Common Stock is at the time traded on the Nasdaq Stock Market, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question, as such price is reported by the National Association of Securities Dealers on the Nasdaq Stock Market and published in The Wall Street Journal. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(ii) If the Common Stock is at the time listed on any stock exchange, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question on the stock exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange and published in The Wall Street Journal. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(iii) If the Common Stock is at the time neither listed on any stock exchange or the Nasdaq Stock Market, then the Fair Market Value shall be determined by the Plan Administrator after taking into account such factors as the Plan Administrator shall deem appropriate but shall be determined without regard to any restrictions other than a restriction which, by its term, will never lapse.

(iv) For purposes of same day sales, the Fair Market Value shall be deemed to be the amount per share for which the shares of Common Stock were sold.

L. Incentive Option shall mean an option that satisfies the requirements of Code Section 422.

M. Involuntary Termination shall mean:

(i) such individual's involuntary dismissal or discharge by the Corporation (or any Parent or Subsidiary) for reasons other than Misconduct, or

(ii) such individual's voluntary resignation within 60 days following (a) a change in his or her position with the Corporation (or any Parent or Subsidiary) which materially reduces his or her duties and

responsibilities, (b) a reduction in his or her base salary by more than 15%, unless the base salaries of all similarly situated individuals are reduced by the Corporation or any Parent or Subsidiary employing the individual, or (c) a relocation of such individual's place of employment by more than fifty miles, provided and only if such change, reduction or relocation is effected without the individual's written consent.

N. Misconduct shall mean (i) the commission of any act of fraud, embezzlement or dishonesty by Optionee or Participant, (ii) any unauthorized use or disclosure by such person of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary), or (iii) any other intentional misconduct by such person adversely affecting the business or affairs of the Corporation (or any Parent or Subsidiary) in a material manner; provided, however, that if the term or concept has been defined in an employment agreement between the Corporation and Optionee or Participant, then Misconduct shall have the definition set forth in such employment agreement. The foregoing definition shall not in any way preclude or restrict the right of the Corporation (or any Parent or Subsidiary) to discharge or dismiss any Optionee, Participant or other person in the Service of the Corporation (or any Parent or Subsidiary) for any other acts or omissions, but such other acts or omissions shall not be deemed, for purposes of the Plan, to constitute grounds for termination for Misconduct.

O. Non-Statutory Option shall mean an option that does not qualify as an Incentive Option.

P. Option Grant Program shall mean the option grant program in effect under Article 2 of the Plan.

Q. Optionee shall mean any person to whom an option is granted pursuant to the Plan.

R. Parent shall mean any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation, provided each corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

S. Participant shall mean any person who is issued shares of Common Stock under the Stock Issuance Program.

T. Plan shall mean this Midiman, Inc. 2002 Stock Option/Stock Issuance Plan.

U. Plan Administrator shall mean either the Board or the Committee acting in its capacity as administrator of the Plan.

V. Service shall mean the performance of services for the Corporation (or any Parent or Subsidiary) by a person in the capacity of an Employee, a member of the board of directors or an independent contractor,

except to the extent otherwise specifically provided in the documents evidencing the option grant or stock issuance.

W. Stock Issuance Agreement shall mean the agreement entered into by the Corporation and Participant at the time of issuance of shares of Common Stock under the Stock Issuance Program.

X. Stock Issuance Program shall mean the stock issuance program in effect under Article 3 of the Plan.

Y. Subsidiary shall mean any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Z. 10% Shareholder shall mean the owner of stock (after taking into account the constructive ownership rules of Section 424(d) of the Code) possessing more than 10% of the total combined voting power of all classes of stock of the Corporation (or any Parent or Subsidiary).

AA. Unvested Shares shall mean shares of Common Stock have not vested in accordance with the vesting schedule applicable to those shares or any special vesting acceleration provisions and which are subject to the Corporation's repurchase right.

BB. Vested Shares shall mean shares of Common Stock which have vested in accordance with the vesting schedule applicable to those shares or any special vesting acceleration provisions and which are no longer subject to the Corporation's repurchase right.

Incentive Stock Option Grant

Terms and Conditions

1. Grant of Option. Avid Technology, Inc., a Delaware corporation (the "Company"), has granted to the Optionee identified in the attached Notice of Stock Option Grant (the "Notice") an option pursuant to the Company's Stock Plan identified in the Notice (the "Plan") to purchase a total number of shares as identified in the Notice (the "Shares") of common stock, \$0.01 par value per share, of the Company ("Common Stock") at the price per share and subject to the terms and conditions set forth herein and in the Notice.

It is intended that the option evidenced hereby shall be an incentive stock option as defined in Section 422 of the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder (the "Code"). Except as otherwise indicated by the context, the term "Optionee", as used in this option, shall be deemed to include any person who acquires the right to exercise this option validly under its terms. Except where the context otherwise requires, the term "Company" shall include the parent and all present and future subsidiaries of the Company as defined in Sections 424(e) and 424(f) of the Code.

2. Vesting Schedule. Except as otherwise provided herein, this option may be exercised in whole or in part prior to the tenth anniversary of the date of grant (hereinafter the "Final Exercise Date") commencing on the first vest date set forth in the Notice (the "Vesting Commencement Date") in an initial installment of shares as provided therein. The remaining shares shall vest as provided in the Notice. The right of exercise shall be cumulative so that to the extent the option is not exercised in any period to the maximum extent permissible it shall continue to be exercisable, in whole or in part, with respect to all Shares for which it is vested until the earlier of the Final Exercise Date or the termination of this option under Section 3 hereof or the Plan.

3. Exercise of Option.

(a) Form of Exercise. Each election to exercise this option shall be in a manner as determined by the Company from time to time and shall be accompanied by payment in full in accordance with Section 4 below. The Optionee may purchase less than the number of shares covered hereby, provided that no partial exercise of this option may be for any fractional share or for fewer than ten whole shares.

(b) Continuous Relationship with the Company Required. Except as otherwise provided in this Section 3, this option may not be exercised unless the Optionee, at the time he or she exercises this option, is, and has been at all times since the grant date as indicated in the Notice (the "Grant Date"), an employee or officer of, or consultant or advisor to, the Company (an "Eligible Optionee").

(c) Termination of Relationship with the Company. If the Optionee ceases to be an Eligible Optionee for any reason, then, except as provided in paragraphs (d) and (e) below, the right to exercise this option shall terminate

three months after such cessation (but in no event after the Final Exercise Date), provided that this option shall be exercisable only to the extent that the Optionee was entitled to exercise this option on the date of such cessation. Notwithstanding the foregoing, if the Optionee, prior to the Final Exercise Date, violates the non-competition or confidentiality provisions of any employment contract, confidentiality and nondisclosure agreement or other similar agreement between the Optionee and the Company, the right to exercise this option shall terminate immediately upon such violation.

(d) Exercise Period Upon Retirement, Death or Disability. If the Optionee retires, dies or becomes disabled (within the meaning of Section 22(e)(3) of the Code) prior to the Final Exercise Date while he or she is an Eligible Optionee and the Company has not terminated such relationship for "cause" as specified in paragraph (e) below, this option shall be exercisable, within the period of one year following the date of retirement, death or disability of the Optionee, by the Optionee (or in the case of death by an authorized transferee), provided that this option shall be exercisable only to the extent that this option was exercisable by the Optionee on the date of his or her retirement, death or disability, and further provided that this option shall not be exercisable after the Final Exercise Date. For purposes of this Section 3, "retirement" shall mean the cessation of employment with the Company for any reason other than "cause" as specified in paragraph (e) below, by an Optionee who is at least 55 years of age and who has worked full-time for the company for the five years immediately preceding the date of cessation of employment.

(e) Discharge for Cause. If the Optionee, prior to the Final Exercise Date, is discharged by the Company for "cause" (as defined below), the right to exercise this option shall terminate immediately upon the effective date of such discharge. "Cause" shall mean willful misconduct by the Optionee or willful failure by the Optionee to perform his or her responsibilities to the Company (including, without limitation, breach by the Optionee of any provision of any employment, consulting, advisory, nondisclosure, non-competition or other similar agreement between the Optionee and the Company), as determined by the Company, which determination shall be conclusive. The Optionee shall be considered to have been discharged for "Cause" if the Company determines, within 30 days after the Optionee's resignation, that discharge for cause was warranted.

4. Payment of Purchase Price. Payment of the purchase price for shares purchased upon exercise of this option shall be made by delivery of cash or check payable to the order of the Company or, with the prior consent of the Company (which may be withheld in its sole discretion), by (A) delivery of shares of Common Stock owned by the Optionee for at least six months, valued at their fair market value, as determined by the Board of Directors of the Company (the "Board") in good faith; (B) delivery of a promissory note of the Optionee to the Company on terms determined by the Board; (C) delivery of an irrevocable undertaking by a credit worthy broker to deliver promptly to the Company sufficient funds to pay the exercise price or delivery by the Optionee of irrevocable and unconditional instructions to a credit worthy broker to deliver promptly to the Company cash or a check sufficient to pay the exercise price; (D) payment of such other lawful consideration as the Board may determine; or (E) any combination of the foregoing.

5. Tax Matters.

(a) Withholding. No Shares will be issued pursuant to the exercise of this option unless and until the Optionee pays to the Company, or makes provision satisfactory to the Company for payment of, any federal, state or local withholding taxes required by law to be withheld in respect of this option. In the Board's discretion, and subject to such conditions as the Board may establish, such tax obligations may be paid in whole or in part in shares of Common Stock, including shares retained from the option creating the tax obligation, valued at their fair market value. The Company may, to the extent permitted by law, deduct any such tax obligations from any payment of any kind otherwise due to the Optionee.

(b) Disqualifying Disposition. If the Optionee disposes of Shares acquired upon exercise of this option within two years from the Grant Date or one year after such Shares were acquired pursuant to exercise of this option, the Optionee shall notify the Company in writing of such disposition.

6. Nontransferability of Option. This option may not be sold, assigned, transferred, pledged or otherwise encumbered by the Optionee, either voluntarily or by operation of law, except by will or the laws of descent and distribution, and, during the lifetime of the Optionee, this option shall be exercisable only by the Optionee.

7. Provisions of the Plan. This option is subject to the provisions of the Plan, a copy of which is furnished to the Optionee with this option.

8. Miscellaneous.

(a) Governing Law. This option shall be governed by and construed in accordance with the laws of the State of Delaware without regard to applicable conflicts of laws.

(b) Severability. The invalidity or unenforceability of any provision hereof shall not affect the validity or enforceability of any other provision hereof, and each such other provision shall be severable and enforceable to the extent permitted by law.

(c) Binding Effect. These terms and conditions shall be binding upon and inure to the benefit of the Company and the Optionee and their respective heirs, executors, administrators, legal representatives, successors and assigns.

(d) Entire Agreement. These terms and conditions, the attached Notice and the Plan constitute the entire agreement between the parties, and supersedes all prior agreements and understandings, relating to the subject matter hereof.

(e) Amendment. These terms and conditions may be amended or modified only by a written instrument executed by both the Company and the Optionee.

Avid Technology, Inc.

Notice of Grant of Stock Option

NAME

Employee ID: -----

Dear _____,

Effective _____ (the "Effective Date"), you have been granted a stock option to buy _____ shares of common stock of Avid Technology, Inc. (the "Company") at an exercise price of \$ _____ per share.

Shares in each period will become fully vested on the date shown.

Number of Shares	Vest Type	Full Vest	Expiration

	On Vest Date		

	Monthly		

By your signature and the Company's signature below, you and the Company agree that this option is granted under and governed by the terms and conditions of the Company's Stock Option Plan and the attached Terms and Conditions.

AVID TECHNOLOGY, INC.

By _____ Date _____

Employee Date _____

Nonstatutory Stock Option Grant

Terms and Conditions

1. Grant of Option. Avid Technology, Inc., a Delaware corporation (the "Company"), has granted to the Optionee identified in the attached Notice of Stock Option Grant (the "Notice") an option pursuant to the Company's Stock Plan identified in the Notice (the "Plan") to purchase a total number of shares as identified in the Notice (the "Shares") of common stock, \$0.01 par value per share, of the Company ("Common Stock") at the price per share and subject to the terms and conditions set forth herein and in the Notice.

It is intended that the option evidenced hereby shall not be an incentive stock option as defined in Section 422 of the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder (the "Code"). Except as otherwise indicated by the context, the term "Optionee", as used in this option, shall be deemed to include any person who acquires the right to exercise this option validly under its terms. Except where the context otherwise requires, the term "Company" shall include the parent and all present and future subsidiaries of the Company as defined in Sections 424(e) and 424(f) of the Code.

2. Vesting Schedule. Except as otherwise provided herein, this option may be exercised in whole or in part prior to the tenth anniversary of the date of grant (hereinafter the "Final Exercise Date") commencing on the first vest date set forth in the Notice (the "Vesting Commencement Date") in an initial installment of shares as provided therein. The remaining shares shall vest as provided in the Notice. The right of exercise shall be cumulative so that to the extent the option is not exercised in any period to the maximum extent permissible it shall continue to be exercisable, in whole or in part, with respect to all Shares for which it is vested until the earlier of the Final Exercise Date or the termination of this option under Section 3 hereof or the Plan.

3. Exercise of Option.

(a) Form of Exercise. Each election to exercise this option shall be in a manner as determined by the Company from time to time and shall be accompanied by payment in full in accordance with Section 4 below. The Optionee may purchase less than the number of shares covered hereby, provided that no partial exercise of this option may be for any fractional share or for fewer than ten whole shares.

(b) Continuous Relationship with the Company Required. Except as otherwise provided in this Section 3, this option may not be exercised unless the Optionee, at the time he or she exercises this option, is, and has been at all times since the grant date as indicated in the Notice (the "Grant Date"), an employee, officer or director of, or consultant or advisor to, the Company (an "Eligible Optionee").

(c) Termination of Relationship with the Company. If the Optionee ceases to be an Eligible Optionee for any reason, then, except as provided in

paragraphs(d) and (e) below, the right to exercise this option shall terminate three months after such cessation (but in no event after the Final Exercise Date), provided that this option shall be exercisable only to the extent that the Optionee was entitled to exercise this option on the date of such cessation. Notwithstanding the foregoing, if the Optionee, prior to the Final Exercise Date, violates the non-competition or confidentiality provisions of any employment contract, confidentiality and nondisclosure agreement or other agreement between the Optionee and the Company, the right to exercise this option shall terminate immediately upon such violation.

(d) Exercise Period Upon Death, Disability or Retirement. If the Optionee retires, dies or becomes disabled (within the meaning of Section 22(e)(3) of the Code) prior to the Final Exercise Date while he or she is an Eligible Optionee and the Company has not terminated such relationship for "cause" as specified in paragraph (e) below, this option shall be exercisable, within the period of one year following the date of retirement, death or disability of the Optionee, by the Optionee (or in the case of death by an authorized transferee), provided that this option shall be exercisable only to the extent that this option was exercisable by the Optionee on the date of his or her retirement, death or disability, and further provided that this option shall not be exercisable after the Final Exercise Date. For purposes of this Section 3, "retirement" shall mean the cessation of employment with the Company for any reason other than "cause" as specified in paragraph (e) below, by an

Optionee who is a least 55 years of age and who has worked full-time for the company for the five years immediately preceding the date of cessation of employment.

(e) Discharge for Cause. If the Optionee, prior to the Final Exercise Date, is discharged by the Company for "cause" (as defined below), the right to exercise this option shall terminate immediately upon the effective date of such discharge. "Cause" shall mean willful misconduct by the Optionee or willful failure by the Optionee to perform his or her responsibilities to the Company (including, without limitation, breach by the Optionee of any provision of any employment, consulting, advisory, nondisclosure, non-competition or other similar agreement between the Optionee and the Company), as determined by the Company, which determination shall be conclusive. The Optionee shall be considered to have been discharged for "Cause" if the Company determines, within 30 days after the Optionee's resignation, that discharge for cause was warranted.

4. Payment of Purchase Price. Payment of the purchase price for shares purchased upon exercise of this option shall be made by delivery of cash or check payable to the order of the Company or, with the prior consent of the Company (which may be withheld in its sole discretion), by (A) delivery of shares of Common Stock owned by the Optionee for at least six months, valued at their fair market value, as determined by the Board of Directors of the Company (the "Board") in good faith; (B) delivery of a promissory note of the Optionee to the Company on terms determined by the Board; (C) delivery of an irrevocable undertaking by a credit worthy broker to deliver promptly to the Company sufficient funds to pay the exercise price or delivery by the Optionee of irrevocable and unconditional instructions to a credit worthy broker to deliver promptly to the Company cash or a check sufficient to pay the exercise price; (D) payment of such other lawful consideration as the Board may determine; or (E) any combination of the foregoing.

5. Tax Matters. No Shares will be issued pursuant to the exercise of this option unless and until the Optionee pays to the Company, or makes provision satisfactory to the Company for payment of, any federal, state or local withholding taxes required by law to be withheld in respect of this option. In the Board's discretion, and subject to such conditions as the Board may establish, such tax obligations may be paid in whole or in part in shares of Common Stock, including shares retained from the option creating the tax obligation, valued at their fair market value. The Company may, to the extent permitted by law, deduct any such tax obligations from any payment of any kind otherwise due to the Optionee.

6. Nontransferability of Option. This option may not be sold, assigned, transferred, pledged or otherwise encumbered by the Optionee, either voluntarily or by operation of law, except by will or the laws of descent and distribution, and, during the lifetime of the Optionee, this option shall be exercisable only by the Optionee.

7. Provisions of the Plan. This option is subject to the provisions of the Plan, a copy of which is furnished to the Optionee with this option.

8. Miscellaneous.

(a) Governing Law. This option shall be governed by and construed in accordance with the laws of the State of Delaware without regard to applicable conflicts of laws.

(b) Severability. The invalidity or unenforceability of any provision hereof shall not affect the validity or enforceability of any other provision hereof, and each such other provision shall be severable and enforceable to the extent permitted by law.

(c) Binding Effect. These terms and conditions shall be binding upon and inure to the benefit of the Company and the Optionee and their respective heirs, executors, administrators, legal representatives, successors and assigns.

(d) Entire Agreement. These terms and conditions, the attached Notice and the Plan constitute the entire agreement between the parties, and supersedes all prior agreements and understandings, relating to the subject matter hereof.

(e) Amendment. These terms and conditions may be amended or modified only by a written instrument executed by both the Company and the Optionee.

Avid Technology, Inc.
Notice of Grant of Stock Option

NAME

Employee ID: _____

Dear _____,

Effective _____ (the "Effective Date"), you have been granted a stock option to buy _____ shares of common stock of Avid Technology, Inc. (the "Company") at an exercise price of \$ _____ per share.

Shares in each period will become fully vested on the date shown.

Number of Shares	Vest Type	Full Vest	Expiration
	On Vest Date		
	Monthly		

By your signature and the Company's signature below, you and the Company agree that this option is granted under and governed by the terms and conditions of the Company's Stock Option Plan and the attached Terms and Conditions.

AVID TECHNOLOGY, INC.

By _____ Date _____

Employee Date _____

(f)

Notice of Grant of Restricted Stock Under 1997 Stock Incentive Plan, as amended

NAME

Employee ID:

Dear

,

Effective (the "Effective Date"), you have been granted the right to buy shares of Avid Technology, Inc. (the "Company") Restricted Stock at \$ per share (the "Shares"). The total price of the Shares is \$. The Shares are subject to the terms and conditions of the Company's 1997 Stock Incentive Plan, as amended and the Terms and Conditions of the Restricted Stock Award, each of which is attached hereto, and which, together with this Notice of Grant of Restricted Stock, forms the complete agreement between you and the Company relative to the Shares.

The Shares will vest as set forth in the following schedule, and will become fully vested on the last date shown.

Vested Shares

Vesting Date

Upon termination of your employment, the Company has an option to repurchase the Shares which are not then vested at a price of \$ per Share, pursuant to the Terms and Conditions of the Restricted Stock Award.

By your signature and the Company's signature below, you and the Company agree that the Shares are granted under and governed by the terms and conditions of the Company's 1997 Stock Incentive Plan, as amended and the Terms and Conditions of the Restricted Stock Award.

AVID TECHNOLOGY, INC.

By

Date

Name:

Title:

Address: One Park West

Tewksbury, MA 01876

- -----

Date -----

Employee

Address:

Avid Technology, Inc.

Terms and Conditions of Restricted Stock Award
Granted Under 1997 Stock Incentive Plan, as amended

1. Purchase of Shares.

Avid Technology, Inc., a Delaware corporation (the "Company") has issued and sold to the Participant, and the Participant has purchased from the Company, subject to the terms and conditions set forth herein and in the Company's 1997 Stock Incentive Plan, as amended (the "Plan"), the number of shares identified in the attached Notice (the "Shares") of common stock, \$.01 par value, of the Company ("Common Stock"), at a purchase price per share identified in the attached Notice. The aggregate purchase price for the Shares shall be paid by the Participant by check payable to the order of the Company or such other method as may be acceptable to the Company. The Company shall record on its books the issuance to the Participant of that number of Shares purchased by the Participant. The Participant agrees that the Shares shall be subject to the Purchase Option set forth in Section 2 herein and the restrictions on transfer set forth in Section 4 herein.

2. Purchase Option.

(a) The Shares shall vest and become "Vested Shares" on the dates set forth in the attached Notice (each of such vesting dates being referred to as a "Vesting Anniversary Date"). Except as provided in subsection 2(b) below, in the event that the Participant ceases to be employed by the Company (as an employee or officer of, or an advisor or consultant to, the Company) for any reason or no reason, with or without cause, prior to the final Vesting Anniversary Date following the date hereof, vesting shall cease and the

Company shall have the right and option (the "Purchase Option") to purchase from the Participant, for a sum specified in the attached Notice (the "Option Price"), some or all of the Shares that are not then Vested Shares.

(b) In the event that the Participant's employment with the Company is terminated by reason of death or disability (as defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), the Participant's Shares shall continue to vest for a period of one year.

(c) For purposes of these Terms and Conditions of the Restricted Stock Award, employment with the Company shall include employment with a parent or subsidiary of the Company.

3. Exercise of Purchase Option and Closing.

(a) The Company may exercise the Purchase Option by delivering or mailing to the Participant (or his estate), within 90 days after the termination of the employment of the Participant with the Company, a written notice of exercise of the Purchase Option. Such notice shall specify the number of Shares to be purchased. If and to the extent the Purchase Option is not so

exercised by the giving of such a notice within such 90-day period, the Purchase Option shall automatically expire and terminate effective upon the expiration of such 90-day period.

(b) Within 10 days after delivery to the Participant of the Company's notice of the exercise of the Purchase Option pursuant to subsection (a) above, the Company shall cause to be transferred to the Company on its books that number of Shares which the Company has elected to purchase in accordance with the terms herein. In the event a certificate or certificates representing the Shares have been issued to the Participant, the Participant (or his estate) shall tender to the Company at its principal offices the certificate or certificates representing the Shares which the Company has elected to purchase in accordance with the terms herein, duly endorsed in blank or with duly endorsed stock powers attached thereto, all in form suitable for the transfer of such Shares to the Company. Upon such transfer, the Company shall deliver or mail to the Participant a check in the amount of the aggregate Option Price for such Shares (provided that any delay in making such payment shall not invalidate the Company's exercise of the Purchase Option with respect to such Shares).

(c) After the time at which any Shares are transferred to the Company pursuant to subsection 3(b) above, the Company shall not pay any dividend to the Participant on account of such Shares or permit the Participant to exercise any of the privileges or rights of a stockholder with respect to such Shares, but shall, in so far as permitted by law, treat the Company as the owner of such Shares.

(d) The Option Price may be payable, at the option of the Company, in cancellation of all or a portion of any outstanding indebtedness of the Participant to the Company or in cash (by check) or both.

(e) The Company shall not purchase any fraction of a Share upon exercise of the Purchase Option, and any fraction of a Share resulting from a computation made pursuant to Section 2 herein shall be rounded to the nearest whole Share (with any one-half Share being rounded upward).

(f) The Company may assign its Purchase Option to one or more persons or entities.

4. Restrictions on Transfer.

The Participant shall not sell, assign, transfer, pledge, hypothecate or otherwise dispose of, by operation of law or otherwise any unvested Shares, or any interest therein, except by will or the laws of descent and distribution, provided that such Shares shall remain subject to these Terms and Conditions of the Restricted Stock Award (including without limitation the restrictions on transfer set forth in this Section 4, and the Purchase Option) and such permitted transferee shall, as a condition to such transfer, deliver to the Company a written instrument confirming that such transferee shall be bound by all of the terms and conditions herein.

5. Effect of Prohibited Transfer.

The Company shall not be required (a) to transfer on its books any of the Shares which shall have been sold or transferred in violation of any of the provisions set forth herein, or (b) to treat as owner of such Shares or to pay dividends to any transferee to whom any such Shares shall have been so sold or transferred.

6. Restrictive Legend.

All certificates representing Shares shall have affixed thereto a legend in substantially the following form, in addition to any other legends that may be required under federal or state securities laws:

"The shares of stock represented by this certificate are subject to restrictions on transfer and an option to purchase set forth in certain Terms and Conditions of Restricted Stock Award, and a copy of such Terms and Conditions of Restricted Stock Award is available for inspection without charge at the office of the Secretary of the corporation."

7. Provisions of the Plan.

These Terms and Conditions of Restricted Stock Award are subject to the provisions of the Plan, a copy of which is furnished herewith to the Participant.

8. Withholding Taxes; Section 83(b) Election.

(a) The Participant acknowledges and agrees that the Company has the right to withhold from payments of any kind otherwise due to the Participant, or to require the Participant to pay to the Company any federal, state or local taxes of any kind required by law to be withheld by the Company with respect to the purchase of the Shares by the Participant or the lapse of the Purchase Option. At the option of the Board of Directors of the Company, the Participant may satisfy such tax obligation in whole or in part by surrendering to the Company shares of Common Stock, including Shares which are Vested Shares, having a value, based on the last reported sale price of the Common Stock on the NASDAQ National Market on the day prior to surrender, equal to the amount of such obligation.

(b) The Participant acknowledges that the Participant has been informed of the availability of making an election in accordance with Section 83(b) of the Code; that such election must be filed with the Internal Revenue Service within 30 days of the transfer of shares to the Participant; and that the Participant is solely responsible for making such election.

9. Miscellaneous.

(a) Severability. The invalidity or unenforceability of any provision hereof shall not affect the validity or enforceability of any other provision hereof, and each such other provision shall be severable and enforceable to the extent permitted by law.

(b) Binding Effect. These terms and conditions shall be binding upon and inure to the benefit of the Company and the Participant and their respective heirs, executors, administrators, legal representatives, successors and assigns, subject to the restrictions on transfer set forth in Section 4 herein.

(c) Notice. All notices required or permitted hereunder shall be in writing and deemed effectively given upon personal delivery or five days after deposit in the United States Post Office, by registered or certified mail, postage prepaid, addressed to the other party hereto at the address shown beneath his or its respective signature to the attached Notice, or at such other address or addresses as either party shall designate to the other in accordance with this Section 9(c).

(d) Entire Agreement. These terms and conditions, the attached Notice and the Plan constitute the entire agreement between the parties, and supersedes all prior agreements and understandings, relating to the subject matter herein.

(e) Amendment. These terms and conditions may be amended or modified only by a written instrument executed by both the Company and the Participant.

(f) Governing Law. These terms and conditions shall be construed, interpreted and enforced in accordance with the internal laws of the State of Delaware without regard to any applicable conflicts of laws.

CERTIFICATION

I, David A. Krall, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Avid Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2004

/s/ David A. Krall

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

CERTIFICATION

I, Paul J. Milbury, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Avid Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2004

/s/ Paul J. Milbury

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

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

In connection with the Quarterly Report on Form 10-Q of Avid Technologies, Inc. (the "Company") for the period ended September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, David A. Krall, President and Chief Executive Officer of the Company, and Paul J. Milbury, Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 9, 2004 /s/ David A. Krall

David A. Krall
President and Chief Executive Officer

Dated: November 9, 2004 /s/ Paul J. Milbury

Paul J. Milbury
Chief Financial Officer