**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2009**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from __________ to __________**

**Commission File Number: 0-21174**

# Avid Technology, Inc.

(Exact Name of Registrant as Specified in Its Charter)

| **Delaware** | **04-2977748** |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

**One Park West**
**Tewksbury, Massachusetts 01876**
(Address of Principal Executive Offices, Including Zip Code)

**(978) 640-6789**
(Registrant's Telephone Number, Including Area Code)

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 o

Indicate by check mark whether the registrant has submitted and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large Accelerated Filer o | Accelerated Filer x |
| Non-accelerated Filer o (Do not check if smaller reporting company) | Smaller Reporting Company o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

The number of shares outstanding of the registrant's Common Stock as of November 12, 2009 was 37,488,361.

**AVID TECHNOLOGY, INC.**

**FORM 10-Q**

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009**

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This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and Section 27A of the Securities Act of 1933, as amended, or the Securities Act. For this purpose, any statements contained in this quarterly report regarding our strategy, future plans or operations, financial position, future revenues, projected costs, prospects, and objectives of management, other than statements of historical facts, may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We cannot guarantee that we actually will achieve the plans, intentions or expectations expressed or implied in forward-looking statements. There are a number of factors that could cause actual events or results to differ materially from those indicated or implied by such forward-looking statements, many of which are beyond our control, including the factors discussed in Part I - Item 1A under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2008, and as referenced in Part II - Item 1A of this report. In addition, the forward-looking statements contained herein represent our estimates only as of the date of this filing and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, whether to reflect actual results, changes in assumptions, changes in other factors affecting such forward-looking statements or otherwise.

## 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, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **Net revenues:** | | | | |
| Products | $ 123,522 | $ 183,686 | $ 369,075 | $ 540,977 |
| Services | 28,597 | 33,380 | 85,216 | 97,218 |
| Total net revenues | 152,119 | 217,066 | 454,291 | 638,195 |
| **Cost of revenues:** | | | | |
| Products | 57,097 | 94,303 | 176,774 | 272,004 |
| Services | 13,586 | 18,744 | 43,515 | 55,760 |
| Amortization of intangible assets | 519 | 1,249 | 1,465 | 6,773 |
| Restructuring costs | — | — | 799 | — |
| Total cost of revenues | 71,202 | 114,296 | 222,553 | 334,537 |
| **Gross profit** | 80,917 | 102,770 | 231,738 | 303,658 |
| **Operating expenses:** | | | | |
| Research and development | 29,262 | 37,825 | 90,974 | 115,307 |
| Marketing and selling | 44,705 | 53,638 | 127,480 | 159,224 |
| General and administrative | 12,093 | 19,734 | 39,765 | 61,169 |
| Amortization of intangible assets | 2,782 | 3,307 | 7,779 | 10,017 |
| Impairment of goodwill and intangible asset | — | 51,257 | — | 51,257 |
| Restructuring costs, net | 7,891 | 2,107 | 17,132 | 4,107 |
| Loss on sales of assets | 3,398 | — | 3,398 | — |
| Total operating expenses | 100,131 | 167,868 | 286,528 | 401,081 |
| **Operating loss** | (19,214) | (65,098) | (54,790) | (97,423) |
| Interest income | 177 | 621 | 680 | 2,930 |
| Interest expense | (406) | (134) | (641) | (413) |
| Other income (expense), net | (11) | 20 | (68) | 88 |
| **Loss before income taxes** | (19,454) | (64,591) | (54,819) | (94,818) |
| (Benefit from) provision for income taxes, net | (2,246) | 1,800 | (4,385) | 3,106 |
| **Net loss** | $ (17,208) | $ (66,391) | $ (50,434) | $ (97,924) |
| Net loss per common share – basic and diluted | $ (0.46) | $ (1.80) | $ (1.35) | $ (2.59) |
| Weighted-average common shares outstanding – basic and diluted | 37,341 | 36,960 | 37,251 | 37,739 |

*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, 2009 | December 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 78,118 | $ 121,792 |
| Marketable securities | 24,863 | 25,902 |
| Accounts receivable, net of allowances of $15,793 and $23,182 at September 30, 2009 and December 31, 2008, respectively | 86,544 | 103,527 |
| Inventories | 91,692 | 95,755 |
| Deferred tax assets, net | 1,086 | 612 |
| Prepaid expenses | 7,655 | 9,274 |
| Other current assets | 24,637 | 34,083 |
| Total current assets | 314,595 | 390,945 |
| | | |
| Property and equipment, net | 33,556 | 38,321 |
| Intangible assets, net | 32,451 | 38,143 |
| Goodwill | 227,118 | 225,375 |
| Other assets | 11,570 | 10,801 |
| Total assets | $ 619,290 | $ 703,585 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 22,744 | $ 29,419 |
| Accrued compensation and benefits | 23,882 | 27,346 |
| Accrued expenses and other current liabilities | 43,123 | 64,511 |
| Income taxes payable | 2,703 | 9,250 |
| Deferred revenues | 56,748 | 68,581 |
| Total current liabilities | 149,200 | 199,107 |
| | | |
| Long-term liabilities | 13,320 | 11,823 |
| Total liabilities | 162,520 | 210,930 |
| | | |
| Contingencies (Notes 13 and 14) | | |
| | | |
| Stockholders' equity: | | |
| Common stock | 423 | 423 |
| Additional paid-in capital | 989,018 | 980,563 |
| Accumulated deficit | (425,337) | (365,431) |
| Treasury stock at cost, net of reissuances | (114,343) | (124,852) |
| Accumulated other comprehensive income | 7,009 | 1,952 |
| Total stockholders' equity | 456,770 | 492,655 |
| Total liabilities and stockholders' equity | $ 619,290 | $ 703,585 |

*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, | |
|---|---|---|
| | **2009** | **2008** |
| **Cash flows from operating activities:** | | |
| Net loss | $ (50,434) | $ (97,924) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 24,058 | 34,005 |
| Impairment of goodwill and intangible asset | — | 51,257 |
| Provision for doubtful accounts | 1,654 | 1,407 |
| Non-cash provision for restructuring | 2,098 | 16 |
| Loss on sales of assets | 3,398 | — |
| Loss on disposal of fixed assets | 46 | 19 |
| Compensation expense from stock grants and options | 9,908 | 10,829 |
| Changes in deferred tax assets and liabilities | (2,015) | (561) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 19,322 | 21,878 |
| Inventories | 3,313 | (5,583) |
| Prepaid expenses and other current assets | 7,459 | 715 |
| Accounts payable | (6,732) | (5,472) |
| Accrued expenses, compensation and benefits and other liabilities | (27,812) | (2,575) |
| Income taxes payable | (6,721) | (2,281) |
| Deferred revenues | (9,549) | 225 |
| **Net cash (used in) provided by operating activities** | (32,007) | 5,955 |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment | (9,631) | (12,449) |
| Payments for other long-term assets | (1,584) | (1,215) |
| Payments for business acquisitions, net of cash acquired | (4,413) | — |
| Purchases of marketable securities | (52,592) | (42,707) |
| Proceeds from sales of marketable securities | 53,676 | 31,772 |
| Proceeds from notes receivable | 1,989 | — |
| **Net cash used in investing activities** | (12,555) | (24,599) |
| **Cash flows from financing activities:** | | |
| Purchases of common stock for treasury | — | (93,187) |
| Payments related to stock option purchase | (526) | — |
| Proceeds from issuance of common stock under employee stock plans, net | 111 | 736 |
| **Net cash used in financing activities** | (415) | (92,451) |
| Effect of exchange rate changes on cash and cash equivalents | 1,303 | (1,762) |
| Net decrease in cash and cash equivalents | (43,674) | (112,857) |
| Cash and cash equivalents at beginning of period | 121,792 | 208,619 |
| Cash and cash equivalents at end of period | $ 78,118 | $ 95,762 |

*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 statement. 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, 2008 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, 2008 in its 2008 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 revenue recognition, stock-based compensation expenses, restructuring costs, accounts receivable and sales allowances, inventory valuation, goodwill and intangible asset valuations, fair value measurements and income tax asset valuation allowances. Actual results could differ from the Company's estimates.

On January 1, 2009, the Company transitioned to a new business structure that combined the previous Professional Video and Consumer Video units into a single Video reporting segment and consolidated its sales and marketing teams into a single customer-facing organization. As a result, the Company has reclassified its 2008 segment reporting to conform to the 2009 presentation. The change to the current presentation did not affect the Company's consolidated operating results. See Note 16 for a summary of the Company's revenues and contribution margin by reportable segment for the three- and nine-month periods ended September 30, 2009 and 2008.

The Company evaluated subsequent events through November 16, 2009, the date of issuance of these financial statements, to determine if any event since September 30, 2009, the date of these financial statements, required disclosure in these statements. Subsequent to September 30, 2009, the Audit Committee has been conducting an investigation into the business and accounting practices with regard to the shipment of products and recognition of product revenue from certain distribution centers outside the United States. Based on the results of the investigation to date, the Company has determined that it had, in certain instances, erroneously recognized revenue prior to transfer of title and risk of loss to customers. The Company has recorded the estimated errors related to this matter in the financial statements for the three- and nine-month periods ended September 30, 2009 and believes that the impact of any such errors on prior periods is not material. See also Item 4 of this Report on Form 10-Q. It is not expected that any changes to previously filed financial statements will be necessary as a result of the Audit Committee's investigation. The investigation is expected to be completed during the fourth quarter of 2009. The Company determined that no other subsequent event required recognition or disclosure in these financial statements.

## 2. NET INCOME (LOSS) PER COMMON SHARE

Net income (loss) per common share is presented for both basic earnings (loss) per share ("Basic EPS") and diluted earnings (loss) per share ("Diluted EPS"). Basic EPS is based on the weighted-average number of common shares outstanding during the period, excluding non-vested restricted stock held by employees. Diluted EPS is based on the weighted-average number of common shares and potential common shares outstanding during the period.

The following table sets forth (in thousands) potential common shares, on a weighted-average basis, that were considered anti-dilutive securities and excluded from the Diluted EPS calculations either because the sum of the exercise price per share and the unrecognized compensation cost per share was greater than the average market price of the Company's common stock for the relevant period, or because they were considered contingently issuable. The contingently issuable potential common shares result from certain stock options and restricted stock units granted to the Company's executive officers that vest based on performance and market conditions.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Options | 4,376 | 4,149 | 4,303 | 3,902 |
| Warrant (a) | — | 424 | — | 906 |
| Non-vested restricted stock and restricted stock units | 639 | 481 | 804 | 665 |
| Anti-dilutive potential common shares | 5,015 | 5,054 | 5,107 | 5,473 |

*(a) In connection with the acquisition of Softimage Inc. in 1998, the Company issued a ten-year warrant to purchase 1,155,235 shares of the Company's common stock at a price of $47.65 per share. The warrant expired on August 3, 2008.*

During periods of net loss, certain potential common shares that would otherwise be included in the Diluted EPS calculation are excluded because the effect would be anti-dilutive. The following table sets forth (in thousands) common stock equivalents that were excluded from the calculation of Diluted EPS due to the net loss for the relevant period.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Options | 16 | 141 | 13 | 159 |
| Non-vested restricted stock and restricted stock units | 19 | 57 | 9 | 19 |
| Anti-dilutive common stock equivalents | 35 | 198 | 22 | 178 |

## 3. FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") topic 820, *Fair Value Measurements* (formerly Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*), defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and requires certain disclosures about fair value measurements. FASB ASC topic 820 also establishes a fair value hierarchy that requires the use of observable market data, when available, and prioritizes the inputs to valuation techniques used to measure fair value in the following categories:

- Level 1 – Quoted unadjusted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all observable inputs and significant value drivers are observable in active markets.
- Level 3 – Model-derived valuations in which one or more significant inputs or significant value drivers are unobservable, including assumptions developed by the Company.

***Assets and Liabilities Measured at Fair Value on a Recurring Basis***

On a recurring basis, the Company measures certain financial assets and liabilities at fair value, including cash equivalents, marketable securities and foreign-currency forward contracts. All of the Company's financial assets and liabilities were classified as either Level 1 or Level 2 in the fair value hierarchy at September 30, 2009. Instruments valued using quoted market prices in active markets and classified as Level 1 are primarily money market securities and deferred compensation investments. Investments valued based on other observable inputs and classified as Level 2 include commercial paper; certificates of deposit; asset-backed obligations; discount notes; foreign currency contracts; and corporate, municipal, agency and foreign bonds.

The following table summarizes the Company's fair value hierarchy for financial assets and liabilities measured at fair value on a recurring basis at September 30, 2009 (in thousands):

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| | September 30, 2009 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Financial Assets: | | | | |
| Available for sale securities | $ 39,034 | $ 11,426 | $ 27,608 | $ — |
| Deferred compensation plan investments | 763 | 763 | — | — |
| Financial Liabilities: | | | | |
| Deferred compensation plan | $ 763 | $ 763 | $ — | $ — |
| Foreign currency forward contracts | 327 | — | 327 | — |

The following table summarizes the costs (amortized costs of debt instruments) and fair values of the Company's available for sale securities at September 30, 2009 (in thousands):

| | Costs | Net Unrealized Gains (Losses) | Fair Values |
|---|---|---|---|
| Money market | $ 11,426 | $ — | $ 11,426 |
| Certificates of deposit | 5,500 | 3 | 5,503 |
| Commercial paper | 4,749 | (1) | 4,748 |
| Municipal bonds | 8,543 | — | 8,543 |
| Corporate bonds | 2,019 | 3 | 2,022 |
| Foreign bonds | 2,487 | 6 | 2,493 |
| Asset-backed obligations | 44 | (3) | 41 |
| Agency bonds and discount notes | 4,254 | 4 | 4,258 |
| | $ 39,022 | $ 12 | $ 39,034 |

All fixed income securities held at September 30, 2009 had effective maturities of less than one year. All income generated from these investments has been recorded as interest income. The Company calculates realized gains and losses on a specific identification basis. Realized gains and losses from the sale of marketable securities were not material for the three or nine months ended September 30, 2009.

At September 30, 2009, there were no securities whose unrealized losses were deemed by the Company to be other-than-temporary impairments, as the Company has no intent to sell and it is not more likely than not the Company will be required to sell any investment with unrealized losses until it has recovered the full cost basis.

The Company uses the following valuation techniques to determine fair values of its investment instruments:

- *Money Market*: The fair value of the Company's money market fund investment is determined using the unadjusted quoted price from an active market of identical assets.
- *Commercial Paper and Certificates of Deposit:* The fair values for the Company's commercial paper holdings and certificates of deposit are derived from a pricing model using the straight-line amortized cost method and incorporate observable inputs, which include maturity date, issue date, credit rating of the issuer, current commercial paper rate and settlement date.
- *Corporate, Municipal and Foreign Bonds*: The determination of the fair value of corporate, municipal and foreign bonds includes the use of observable inputs from market sources and the incorporation of relative credit information, observed market movements and sector news into a pricing model.
- *Asset-Backed Obligations*: The fair value of asset-backed obligations is determined using a pricing methodology based on observable market inputs, which include an analysis of pricing, spread and volatility of similar asset-backed obligations. Based on the market inputs, cash flows are generated for each tranche, the benchmark yield is determined and deal collateral performance and other market information is incorporated to determine the appropriate spreads.
- *Agency Bonds and Discount Notes:* The fair values of agency bonds and discount note investments are determined using observable market inputs for benchmark yields, base spreads, yield-to-maturity and relevant trade data.

See Note 4 for information on the Company's foreign currency forward contracts that are also measured at fair value on a recurring basis.

***Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis***

The following tables summarize the Company's fair value hierarchy for assets and liabilities measured at fair value on a nonrecurring basis during the three and nine months ended September 30, 2009 (in thousands):

| | | Fair Value Measurements Using | | | |
|---|---|---|---|---|---|
| | Three Months Ended September 30, 2009 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Related Expenses |
| Assets: | | | | | |
| Assets held-for-sale | $ 1,318 | $ — | $ 1,318 | $ — | $ 3,198 |
| | | | | | |
| Liabilities: | | | | | |
| Facilities-related restructuring accruals | $ 3,589 | $ — | $ 3,589 | $ — | $ 3,589 |

| | | Fair Value Measurements Using | | | |
|---|---|---|---|---|---|
| | Nine Months Ended September 30, 2009 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Related Expenses |
| Assets: | | | | | |
| Assets held-for-sale | $ 1,318 | $ — | $ 1,318 | $ — | $ 3,198 |
| | | | | | |
| Liabilities: | | | | | |
| Facilities-related restructuring accruals | $ 7,905 | $ — | $ 7,905 | $ — | $ 7,905 |

The Company typically uses the following valuation techniques to determine fair values of assets and liabilities measured on a nonrecurring basis:

- *Goodwill:* When performing goodwill impairment tests, the Company estimates the fair value of its reporting units using an income approach, generally a discounted cash flow methodology, that includes assumptions for, among other things, forecasted revenues, gross profit margins, operating profit margins, working capital cash flow, growth rates, income tax rates, expected tax benefits and long-term discount rates, all of which require significant judgments by management. The Company also considers comparable market data based on multiples of revenue as well as the reconciliation of the Company's market capitalization to the total fair value of its reporting units. If the estimated fair value of any reporting unit is less that its carrying value, an impairment exists.
- *Intangible Assets:* When performing an intangible asset impairment test, the Company estimates the fair value of the asset using a discounted cash flow methodology, which includes assumptions for, among other things, budgets and economic projections, market trends, product development cycles and long-term discount rates. If the estimated fair value of the asset is less that its carrying value, an impairment exists.
- *Assets Held-for-Sale:* A disposal group classified as held-for-sale is measured at the lower of its carrying amount or fair value less the cost to sell. The Company estimates the fair value of assets held-for-sale at the lower of cost or the average selling price in available markets.
- *Facilities-Related Restructuring Accruals:* During the three and nine months ended September 30, 2009, the Company recorded accruals associated with exiting all or portions of certain leased facilities. The Company estimates the fair value of such liabilities, which are discounted to net present value at an assumed risk-free interest rate, based on observable inputs, including the remaining payments required under the existing lease agreements, utilities costs based on recent invoice amounts, and potential sublease receipts based on quoted market prices for similar sublease arrangements.

## 4. FOREIGN CURRENCY FORWARD CONTRACTS

The Company has significant international operations and, therefore, the Company's revenues, earnings, cash flows and financial position are exposed to foreign currency risk from foreign currency denominated receivables, payables and sales transactions, as well as net investments in foreign operations. The Company derives more than half of its 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, the Company is exposed to the risks that changes in foreign currency could adversely affect its revenues, net income and cash flow. To hedge against the foreign exchange exposure of certain forecasted receivables, payables and cash balances of foreign subsidiaries, the Company enters into short-term foreign currency forward contracts. There are two objectives of the Company's foreign currency forward contract program: (1) to offset any foreign exchange currency risk associated with cash receipts expected to be received from the Company's 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 functional currency of the legal entity. These forward contracts typically mature within 30 days of execution.

The changes in fair value of the foreign currency forward contracts intended to offset foreign currency exchange risk on forecasted cash flows and net monetary assets are recorded as gains or losses in the Company's statement of operations in the period of change, because they do not meet the criteria of FASB ASC topic 815, *Derivatives and Hedging* (formerly SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*), to be treated as hedges for accounting purposes.

The following table sets forth the effect of the Company's foreign currency forward contracts recorded as marketing and selling expenses in the Company's statements of operations during the three and nine months ended September 30, 2009 and 2008 (in thousands):

| | Net Gain (Loss) Recorded in Operating Expenses | | | |
|---|---|---|---|---|
| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| **Derivatives Not Designated as Hedging Instruments under ASC Topic 815** | **2009** | **2008** | **2009** | **2008** |
| Foreign currency forward contracts | $7 | ($86) | $1,588 | $1,595 |

At September 30, 2009, and December 31, 2008, the Company had foreign currency forward contracts outstanding with notional values of $24.9 million and $39.7 million, respectively, as hedges against forecasted foreign currency denominated receivables, payables and cash balances. The following table sets forth the balance sheet location and fair values of the Company's foreign currency forward contracts at September 30, 2009 and December 31, 2008 (in thousands):

| Derivatives Not Designated as Hedging Instruments under ASC Topic 815 | Balance Sheet Location | Fair Value at September 30, 2009 | Fair Value at December 31, 2008 |
|---|---|---|---|
| Financial liabilities: | | | |
| Foreign currency forward contracts | Accrued expenses and other current liabilities | $327 | $45 |

See Note 3 for additional information on the fair value measurements for all financial assets and liabilities, including derivative assets and derivative liabilities, that are measured at fair value on a recurring basis.

## 5. ACQUISITION AND DIVESTITURES

### *Acquisition*

On July 31, 2009, the Company acquired all the outstanding shares of MaxT Systems Inc. ("MaxT"), a Canada-based developer of server-based media management and editing technology, for cash, net of cash acquired, of $4.4 million. The Company performed a preliminary allocation of the purchase price resulting in $3.3 million allocated to amortizable identifiable intangible assets and the remaining $1.1 million to goodwill. In addition, the Company recorded related net deferred tax liabilities of $0.8 million, increasing the goodwill to $1.9 million. The goodwill, which reflects the value of the assembled workforce and the synergies the Company expects to realize by incorporating MaxT's media management and editing technology into future solutions offered to customers, is reported within the Video segment and is not deductible for tax purposes.

The amortizable identifiable intangible assets acquired include developed technology of $2.3 million, customer relationships of $0.5 million, a patent of $0.3 million, non-compete agreements of $0.1 million and trade names of $0.1 million. The Company used the income approach to determine the values of the identifiable intangible assets. The income approach presumes that the value of an asset can be estimated by the net economic benefit to be received over the life of the asset discounted to present value. The weighted-average discount rate (or rate of return) used to determine the value of MaxT's intangible assets was 22% and the effective tax rate used was 35%.

The values of the customer relationships and trade names are both being amortized on a straight-line basis over their estimated useful lives of one-half year, and the non-compete agreements and patent are being amortized over their estimated useful lives of one year and four and one-half years, respectively. The value of the developed technology is being amortized over the greater of the amount calculated using the ratio of current quarter revenues to the total of current quarter and anticipated future revenues, and the straight-line method, over the estimated useful life of four and one-half years. The weighted-average amortization period for the amortizable identifiable intangible assets is approximately three and one-half years. Amortization expense for these intangibles totaled $0.3 million for the three- and nine-month periods ended September 30, 2009.

The Company is continuing its evaluation of the information necessary to determine the fair value of the acquired assets and liabilities of MaxT. Once this evaluation is complete, which in no event will occur more than one year from the date of acquisition, the Company will finalize the purchase price allocation.

The results of operations of MaxT have been included in the results of operations of the Company since the date of acquisition. The Company's results of operations giving effect to the MaxT acquisition as if it had occurred at the beginning of 2008 would not differ materially from reported results.

***Divestiture***

During the third quarter of 2009, the Company recorded a loss on the sale of assets of $3.2 million related to the Company's sale of the PCTV product line, which occurred in the fourth quarter of 2008. The loss resulted from the write-down of PCTV inventory classified as held-for-sale. At September 30, 2009 and December 31, 2008, the Company had inventory classified as held-for-sale of $1.3 million and $7.5 million, respectively, that was included in "other current assets" in the Company's consolidated balance sheets.

## 6. GOODWILL AND INTANGIBLE ASSETS

***Goodwill***

Goodwill resulting from the Company's acquisitions consisted of the following at September 30, 2009 and December 31, 2008 (in thousands):

| | September 30, 2009 | | | December 31, 2008 | | |
|---|---|---|---|---|---|---|
| | Video(a) | Audio | Total | Video | Audio | Total |
| Goodwill | $ 257,813 | $ 141,205 | $ 399,018 | $ 256,070 | $ 141,205 | $ 397,275 |
| Accumulated impairment losses | (107,600) | (64,300) | (171,900) | (107,600) | (64,300) | (171,900) |
| | $ 150,213 | $ 76,905 | $ 227,118 | $ 148,470 | $ 76,905 | $ 225,375 |

*(a) Includes goodwill of $1.9 million related to the July 2009 acquisition of MaxT. See Note 5 for further information regarding the goodwill related to the MaxT acquisition.*

***Identifiable Intangible Assets***

Identifiable intangible assets resulting from the Company's acquisitions consisted of the following at September 30, 2009 and December 31, 2008 (in thousands):

| | September 30, 2009 | | | December 31, 2008 | | |
|---|---|---|---|---|---|---|
| | Gross | Accumulated Amortization | Net | Gross | Accumulated Amortization | Net |
| Completed technologies and patents (a) | $ 68,109 | $ (63,894) | $ 4,215 | $ 65,357 | $ (62,003) | $ 3,354 |
| Customer relationships (a) | 63,637 | (38,392) | 25,245 | 63,072 | (32,964) | 30,108 |
| Trade names (a) | 13,798 | (10,938) | 2,860 | 13,714 | (9,102) | 4,612 |
| License agreements | 560 | (560) | — | 560 | (491) | 69 |
| Non-compete agreements (a) | 158 | (27) | 131 | — | — | — |
| | $ 146,262 | $ (113,811) | $ 32,451 | $ 142,703 | $ (104,560) | $ 38,143 |

*(a) The September 30, 2009 amounts include the intangible assets related to the July 2009 acquisition of MaxT translated at the September 30, 2009 foreign currency exchange rate. See Note 5 for further information regarding the identifiable intangible assets acquired from MaxT.*

During the second quarter of 2009, the Company reduced the expected lives of certain trade name intangible assets as a result of a rebranding program initiated by the Company in April 2009. As a result of the change in these expected lives, the Company will record additional amortization expense of $0.7 million during 2009. Amortization expense related to all intangible assets in the aggregate was $3.3 million and $4.6 million for the three-month periods ended September 30, 2009 and 2008, respectively, and $9.2 million and $16.8 million for the nine-month periods ended September 30, 2009 and 2008, respectively. The Company expects amortization of these intangible assets to be approximately $3 million for the remainder of 2009, $9 million in 2010, $7 million in 2011, $4 million in 2012, $3 million in 2013, $2 million in 2014 and $4 million thereafter.

## 7. ACCOUNTS RECEIVABLE

Accounts receivable, net of allowances, consisted of the following at September 30, 2009 and December 31, 2008 (in thousands):

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Accounts receivable | $ 102,337 | $ 126,709 |
| Less: | | |
| Allowance for doubtful accounts | (3,295) | (3,504) |
| Allowance for sales returns and rebates | (12,498) | (19,678) |
| | $ 86,544 | $ 103,527 |

The accounts receivable balances at September 30, 2009 and December 31, 2008 excluded approximately $9.4 million and $8.4 million, respectively, for large solution sales and certain distributor sales that were invoiced, but for which revenues had not yet been recognized and payments were not then due.

## 8. INVENTORIES

Inventories consisted of the following at September 30, 2009 and December 31, 2008 (in thousands):

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Raw materials | $ 15,333 | $ 22,067 |
| Work in process | 7,077 | 9,296 |
| Finished goods | 69,282 | 64,392 |
| | $ 91,692 | $ 95,755 |

At September 30, 2009 and December 31, 2008, the finished goods inventory included inventory at customer locations of $16.5 million and $18.1 million, respectively, associated with products shipped to customers for which revenues had not yet been recognized.

## 9. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consisted of the following at September 30, 2009 and December 31, 2008 (in thousands):

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Computer and video equipment and software | $ 111,881 | $ 102,457 |
| Manufacturing tooling and testbeds | 6,890 | 6,601 |
| Office equipment | 3,477 | 3,172 |
| Furniture and fixtures | 10,777 | 10,714 |
| Leasehold improvements | 28,801 | 30,655 |
| | 161,826 | 153,599 |
| Accumulated depreciation and amortization | (128,270) | (115,278) |
| | $ 33,556 | $ 38,321 |

## 10. LONG-TERM LIABILITIES

Long-term liabilities consisted of the following at September 30, 2009 and December 31, 2008 (in thousands):

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Long-term deferred tax liabilities, net | $ 3,010 | $ 4,002 |
| Long-term deferred revenue | 6,536 | 4,081 |
| Long-term deferred rent | 2,057 | 2,436 |
| Long-term accrued restructuring | 1,717 | 1,304 |
| | $ 13,320 | $ 11,823 |

## 11. ACCOUNTING FOR STOCK-BASED COMPENSATION

***Stock Option Purchase***

In June 2009, the Company completed a cash tender offer for certain employee stock options. The tender offer applied to 547,133 outstanding stock options having an exercise price equal to or greater than $40.00 per share and granted under the Company's Amended and Restated 2005 Stock Incentive Plan, Amended and Restated 1999 Stock Option Plan (including the U.K. sub-plan), 1998 Stock Option Plan, 1997 Stock Option Plan, 1997 Stock Incentive Plan, as amended, and 1994 Stock Option Plan, as amended. Members of the Company's Board of Directors, officers who file reports under Section 16(a) of the Securities Exchange Act of 1934 and members of the Company's executive staff were not eligible to participate in this offer. Under the offer, eligible options with exercise prices equal to or greater than $40.00 and less than $50.00 per share were eligible to receive a cash payment of $1.50 per share, and eligible options with exercise prices equal to or greater than $50.00 per share were eligible to receive a cash payment of $1.00 per share.

Options to purchase a total of 419,042 shares of the Company's common stock, of which 366,769 shares are available for future grant, were tendered under the offer for an aggregate purchase price of approximately $0.5 million paid in exchange for the cancellation of the eligible options. As a result of the tender offer, the Company incurred stock-based compensation charges of approximately $0.1 million in its condensed consolidated statements of operations during the second quarter of 2009. This is the first time the Company has offered to purchase outstanding stock options in exchange for cash, and there is no current intent to make another such offer in the future.

***Stock Incentive Plans***

Under its stock incentive plans, the Company may grant stock awards or options to purchase the Company's common stock to employees, officers, directors (subject to certain restrictions) and consultants, generally at the market price on the date of grant. The options become exercisable over various periods, typically four years for employees and one year for non-employee directors, and have a maximum term of seven years. Restricted stock and restricted stock unit awards typically vest over four years. At September 30, 2009, 5,353,712 shares were available for issuance under the Company's Amended and Restated 2005 Stock Incentive Plan, including 1,095,992 that may alternatively be issued as awards of restricted stock or restricted stock units.

The Company records stock-based compensation cost for stock-based awards over the requisite service periods for the individual awards, which generally equals the vesting period. Stock-compensation expense is recognized using the straight-line attribution method. The Company generally uses the Black-Scholes option pricing model to estimate the fair value of stock option grants. The Black-Scholes model relies on a number of key assumptions to calculate estimated fair values. The fair values of restricted stock awards, including restricted stock and restricted stock units, are based on the intrinsic values of the awards at the date of grant.

The following table sets forth the weighted-average key assumptions and fair value results for stock options with time-based vesting granted during the three- and nine-month periods ended September 30, 2009 and 2008:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Expected dividend yield | 0.00% | 0.00% | 0.00% | 0.00% |
| Risk-free interest rate | 1.83% | 2.87% | 1.94% | 2.57% |
| Expected volatility | 52.8% | 41.9% | 55.7% | 40.0% |
| Expected life (in years) | 4.62 | 4.55 | 4.58 | 4.46 |
| Weighted-average fair value of options granted | $5.71 | $7.63 | $6.12 | $8.22 |

In December 2007, the Company began issuing options to purchase shares of Avid common stock that had vesting based on market conditions, specifically Avid's stock price, or a combination of performance and market conditions. The compensation costs and derived service periods for stock option grants with vesting based on market conditions or a combination of performance and market conditions are estimated using the Monte Carlo valuation method. For stock option grants with vesting based on a combination of performance and market conditions, the compensation costs are also estimated using the Black-Scholes valuation method, and compensation costs for these grants are recorded based on the higher estimate for each vesting tranche. At September 30, 2009, the Company had 1,707,760 options outstanding that had vesting based on either market conditions or a combination of performance and market conditions.

The following table sets forth the weighted-average key assumptions and fair value results for stock options with vesting based on market conditions or a combination of performance and market conditions granted during the three-and nine-month periods ended September 30, 2009 and 2008:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Expected dividend yield | 0.00% | 0.00% | 0.00% | 0.00% |
| Risk-free interest rate | 3.23% | 3.69% | 3.25% | 3.51% |
| Expected volatility | 53.1% | 41.7% | 54.3% | 39.5% |
| Expected life (in years) | 3.79 | 4.46 | 3.79 | 4.33 |
| Weighted-average fair value of options granted | $5.48 | $5.53 | $5.41 | $6.58 |

The Company estimates forfeiture rates at the time awards are made based on historical turnover rates and applies these rates in the calculation of estimated compensation cost. At September 30, 2009, the Company's annualized estimated forfeiture rates were 0% for non-employee director awards, and 10% for both executive management staff and other employee awards.

The following table summarizes changes in the Company's stock options during the nine-month period ended September 30, 2009:

| | Stock Options | | | |
|---|---|---|---|---|
| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value (in thousands) |
| Options outstanding at December 31, 2008 | 4,450,286 | $30.03 | | |
| Granted | 1,397,040 | $12.82 | | |
| Exercised | (27,296) | $9.09 | | |
| Forfeited or expired (a) | (1,382,894) | $39.43 | | |
| Options outstanding at September 30, 2009 | 4,437,136 | $21.81 | 6.33 years | $2,168 |
| Options vested at September 30, 2009 or expected to vest | 3,781,808 | $22.28 | 6.25 years | $1,786 |
| Options exercisable at September 30, 2009 | 1,172,035 | $29.80 | 4.68 years | $281 |

*(a) Forfeited or expired shares includes options to purchase 419,042 shares canceled as a result of the tender offer to purchase certain employee stock options completed in June 2009. See the "Stock Option Purchase" section in this note for further information on the tender offer.*

The aggregate intrinsic values of stock options exercised during the nine-month periods ended September 30, 2009 and 2008 were approximately $0.1 million and $0.8 million, respectively. Cash amounts received from the exercise of stock options were $0.2 million and $1.2 million for the nine-month periods ended September 30, 2009 and 2008, respectively. The Company did not realize any actual tax benefit from the tax deductions for stock option exercises during the nine-month periods ended September 30, 2009 and 2008 due to the full valuation allowance on the Company's U.S. deferred tax assets.

The following table summarizes changes in the Company's non-vested restricted stock units during the nine-month period ended September 30, 2009:

| | Non-Vested Restricted Stock Units | | | |
|---|---|---|---|---|
| | Shares | Weighted-Average Grant-Date Fair Value | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value (in thousands) |
| Non-vested at December 31, 2008 | 989,772 | $27.28 | | |
| Granted (a) | 84,500 | $12.14 | | |
| Vested | (278,451) | $28.51 | | |
| Forfeited | (122,633) | $25.90 | | |
| Non-vested at September 30, 2009 | 673,188 | $25.16 | 1.27 years | $9,478 |
| Expected to vest | 590,551 | $25.34 | 1.21 years | $8,315 |

*(a) Of the 84,500 restricted stock units granted during the first nine months of 2009, 24,500 vest at the earlier of one year from the grant date or the first fiscal quarter certain performance-based criteria are met.*

The following table summarizes changes in the Company's non-vested restricted stock during the nine-month period ended September 30, 2009:

| | Non-Vested Restricted Stock | | | |
|---|---|---|---|---|
| | Shares | Weighted-Average Grant-Date Fair Value | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value (in thousands) |
| Non-vested at December 31, 2008 | 100,000 | $25.41 | | |
| Granted | — | — | | |
| Vested | (43,750) | $25.41 | | |
| Forfeited | — | — | | |
| Non-vested at September 30, 2009 | 56,250 | $25.41 | 2.22 years | $792 |

***Employee Stock Purchase Plan***

On February 27, 2008, the Company's board of directors approved the Company's Second Amended and Restated 1996 Employee Stock Purchase Plan (the "ESPP"). The amended plan became effective May 1, 2008, the first day of the next offering period under the plan, and offers shares for purchase at a price equal to 85% of the closing price on the applicable offering period termination date. Shares issued under the ESPP are considered compensatory under FASB ASC subtopic 718-50, *Compensation-Stock Compensation: Employee Stock Purchase Plans* (formerly SFAS No. 123 (revised 2004), *Share-Based Payment*). Accordingly, the Company is required to assign fair value to, and record compensation expense for, shares issued from the ESPP starting May 1, 2008. Prior to May 1, 2008, shares were authorized for issuance at a price equal to 95% of the closing price on the applicable offering period termination date, and shares offered under this arrangement were considered noncompensatory.

The following table sets forth the weighted-average key assumptions and fair value results for shares issued under the ESPP for the three- and nine-month periods ended September 30, 2009 and the three- and five-month periods ended September 30, 2008:

| | Three Months Ended September 30, 2009 | Three Months Ended September 30, 2008 | Nine Months Ended September 30, 2009 | Five Months Ended September 30, 2008 |
|---|---|---|---|---|
| Expected dividend yield | 0.00% | 0.00% | 0.00% | 0.00% |
| Risk-free interest rate | 1.25% | 2.25% | 1.68% | 2.36% |
| Expected volatility | 56.5% | 41.5% | 58.7% | 41.2% |
| Expected life (in years) | 0.25 | 0.25 | 0.25 | 0.25 |
| Weighted-average fair value of shares issued | $2.11 | $3.68 | $1.92 | $3.56 |

At September 30, 2009, 874,822 shares remained available for issuance under the ESPP.

***Stock-Based Compensation***

Stock-based compensation was included in the following captions in the Company's condensed consolidated statements of operations for the three- and nine-month periods ended September 30, 2009 and 2008 (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Cost of product revenues | $ 163 | $ 177 | $ 666 | $ 480 |
| Cost of services revenues | 247 | 144 | 868 | 408 |
| Research and development expenses | 655 | 763 | 1,737 | 2,215 |
| Marketing and selling expenses | 895 | 1,470 | 2,522 | 3,108 |
| General and administrative expenses | 906 | 1,803 | 4,115 | 4,879 |
| Total stock-based compensation (a) | $2,866 | $4,357 | $9,908 | $11,090 |

*(a) Stock-based compensation for the nine-month period ended September 30, 2009 included $0.1 million resulting from a tender offer, completed in June 2009, related to the purchase of certain employee stock options.*

At September 30, 2009, the Company had $31.5 million of unrecognized compensation costs before forfeitures related to non-vested stock-based compensation awards granted under its stock-based compensation plans. These costs will be recognized over the next four and one-half years.

## 12. STOCK REPURCHASES

A stock repurchase program was approved by the Company's board of directors in April 2007, which authorized the Company to repurchase up to $100 million of the Company's common stock through transactions on the open market, in block trades or otherwise. In February 2008, the Company's board of directors approved a $100 million increase in the authorized funds for the repurchase of the Company's common stock. During 2007, the Company repurchased 809,236 shares of the Company's common stock under the program for a total purchase price, including commissions, of $26.6 million, or $32.92 per share. During 2008, the Company repurchased an additional 4,254,397 shares of the Company's common stock for a total purchase price, including commissions, of $93.2 million. The average price per share paid for the shares repurchased during 2008, including commissions, was $21.90. At September 30, 2009, $80.3 million remained available for future stock repurchases under the program. This stock repurchase program is being funded through working capital and has no expiration date.

During the first and third quarters of 2009, the Company repurchased 10,482 shares and 1,983 shares of restricted stock from an employee to pay required withholding taxes upon the vesting of restricted stock.

At September 30, 2009 and December 31, 2008, treasury shares held by the Company totaled 4,910,245 shares and 5,207,711 shares, respectively.

## 13. INCOME TAXES

During the second quarter of 2009, the Company identified $0.7 million of income tax reserves related to a foreign subsidiary that were provided for, but not included in the reconciliation of uncertain tax positions presented in Note H of the consolidated financial statements for the year ended December 31, 2008 in the Company's 2008 Annual Report on Form 10-K. During the second quarter of 2009, the Company also identified $0.7 million of new tax reserves for uncertain tax positions. During the third quarter of 2009, the Company's tax reserves decreased by $2.8 million, with $2.1 million of the decrease related to the completion of a foreign tax audit and $0.7 million related to tax attributes in a foreign subsidiary that were deemed more likely than not to be realized. During the third quarter, the Company also released $0.6 million of a valuation allowance on deferred tax assets in a foreign subsidiary due to additional income forecasted in the subsidiary. At September 30, 2009 and December 31, 2008, total unrecognized tax benefits were $2.5 million and $3.7 million, respectively, including $0.4 million and $0.6 million, respectively, for related accrued interest and penalties.

## 14. CONTINGENCIES

The Company receives inquiries from time to time claiming possible patent infringement by the Company. 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 from time to time against the Company arising from or related to contractual or employee relations, intellectual property rights or product performance. Settlements related to any such claims are generally included in the "general and administrative expenses" caption in the Company's consolidated statements of operations. Management does not believe these claims will have a material adverse effect on the financial position or results of operations of the Company.

On May 24, 2007, David Engelke and Bryan Engelke filed a complaint against the Company's Pinnacle subsidiary in Pinellas County (Florida) Circuit Court, claiming that Pinnacle breached certain contracts among them and that the Engelkes are entitled to indemnification for damages awarded against them and attorneys' fees incurred in litigation with a third party. The complaint, which sought damages of approximately $17 million, was served on September 4, 2007. On September 28, 2007, the Florida appellate court reversed the damages award for which the Engelkes seek indemnification, and, on remand, the Pinellas County Circuit Court on June 25, 2009 reduced the damages award to approximately $6.5 million plus pre-judgment interest of approximately $2.0 million. The Engelkes have appealed the remanded judgment. Because the Company cannot predict the outcome of this action at this time, no costs have been accrued for any loss contingency; however, the Company does not expect this matter to have a material effect on the Company's financial position or results of operations.

From time to time, the Company provides indemnification provisions in agreements with customers covering potential claims by third parties of intellectual property infringement. These agreements generally provide that the Company will indemnify customers for losses incurred in connection with an infringement claim brought by a third party with respect to the Company's 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 incurred material costs related to these indemnification provisions. As a result, the Company believes the estimated fair value of these indemnification provisions is minimal.

As permitted under Delaware law and pursuant to the Company's Third Amended and Restated Certificate of Incorporation, as amended, the Company is obligated to indemnify its current and former officers and directors for certain events that occur or occurred while the officer or director is or was serving in such capacity. The term of the indemnification period is for each respective officer's or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification obligations is unlimited; however, the Company has mitigated the exposure through the purchase of directors and officers insurance, which is intended to limit the risk and, in most cases, enable the Company to recover all or a portion of any future amounts paid. As a result of this insurance coverage, the Company believes the estimated fair value of these indemnification obligations is minimal.

The Company, through third parties, provides lease financing options to its customers, including end users and, on a limited basis, resellers. During the terms of these leases, which are generally three years, the Company may remain liable for any unpaid principal balance upon default by the customer, 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, 2009 and December 31, 2008, the Company's maximum recourse exposure totaled approximately $2.9 million and $4.6 million, respectively. The Company records revenues from these transactions upon the shipment of products, provided that all other revenue recognition criteria, including collectibility being reasonably assured, are met. Because the Company has been providing financing options to its customers for many years, the Company has a substantial history of collecting under these arrangements without providing significant refunds or concessions to the end user, reseller or financing party. To date, the payment default loss has consistently been between 2% and 4% per year of the original funded amount. The Company maintains a reserve for estimated losses under recourse lease programs based on historical default rates applied to the funded amount outstanding at period end. At September 30, 2009 and December 31, 2008, the Company's accruals for estimated losses were $1.3 million and $0.8 million, respectively.

The Company provides warranties on externally sourced and internally developed hardware. For internally developed hardware and in cases where the warranty granted to customers for externally sourced hardware is greater than that provided by the manufacturer, the Company records an accrual for the related liability based on historical trends and actual material and labor costs. The warranty period for the Company's products is generally 90 days to one year, but can extend up to five years depending on the manufacturer's warranty or local law.

The following table sets forth activity for the Company's product warranty accrual for the nine-month periods ended September 30 2009 and 2008 (in thousands):

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2009 | 2008 |
| Accrual balance at beginning of period | $ 5,193 | $ 5,803 |
| Accruals for product warranties | 4,644 | 6,293 |
| Cost of warranty claims | (5,098) | (5,975) |
| Accrual balance at end of period | $ 4,739 | $ 6,121 |

## 15. COMPREHENSIVE LOSS

Total comprehensive loss, net of taxes, consists of net loss and the net changes in foreign currency translation adjustment and net unrealized gains and losses on available-for-sale securities and other investments. The following is a summary of the Company's comprehensive loss for the three- and nine-month periods ended September 30, 2009 and 2008 (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Net loss | $ (17,208) | $ (66,391) | $ (50,434) | $ (97,924) |
| Net changes in: | | | | |
| Foreign currency translation adjustment | 3,722 | (7,769) | 5,012 | (5,110) |
| Unrealized gains (losses) on investments | 7 | (344) | 45 | (330) |
| Total comprehensive loss | $ (13,479) | $ (74,504) | $ (45,377) | $ (103,364) |

## 16. SEGMENT INFORMATION

Since the acquisition of Pinnacle Systems, Inc. in 2005 and through 2008, the Company was organized into three strategic business units, Professional Video, Audio, and Consumer Video, each of which was a reportable segment. On January 1, 2009, the Company transitioned to a new business structure that combined the previous Professional Video and Consumer Video units into a single Video reporting segment. The Company also consolidated its sales and marketing teams, which had previously been aligned with the reporting segments, into a single customer-facing organization. Consequently, most marketing and selling expenses are no longer managed by or controlled at the segment level and are, therefore, excluded from the calculation of segment contribution margin. The Company also continues to exclude certain other costs and expenses when evaluating reportable segment performance and profitability, including general and administrative expenses, corporate research and development expenses, the amortization and impairment of acquired intangible assets, stock-based compensation expenses and restructuring expenses. The Company has revised the prior period segment disclosures to conform to the current presentation. The change to the current presentation did not affect the Company's consolidated operating results.

The following is a summary of the Company's revenues and contribution margin by reportable segment for the three-and nine-month periods ended September 30, 2009 and 2008 and a reconciliation of segment contribution margin to total consolidated operating loss for each period (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Revenues: | | | | |
| Video (a) | $ 92,617 | $ 144,835 | $ 268,818 | $ 417,410 |
| Audio | 59,502 | 72,231 | 185,473 | 220,785 |
| Total revenues | $ 152,119 | $ 217,066 | $ 454,291 | $ 638,195 |
| Contribution Margin: | | | | |
| Video | $ 31,196 | $ 40,791 | $ 77,709 | $ 112,877 |
| Audio | 20,883 | 23,493 | 65,444 | 76,278 |
| Segment contribution margin | 52,079 | 64,284 | 143,153 | 189,155 |
| Less unallocated costs and expenses: | | | | |
| Corporate research and development | (1,633) | (1,890) | (5,224) | (5,391) |
| Marketing and selling | (41,017) | (48,841) | (116,588) | (146,019) |
| General and administrative | (11,187) | (16,374) | (35,650) | (51,924) |
| Amortization of acquisition-related intangible assets | (3,301) | (4,556) | (9,244) | (16,790) |
| Impairment of goodwill and intangible asset | — | (51,257) | — | (51,257) |
| Stock-based compensation | (2,866) | (4,357) | (9,908) | (11,090) |
| Restructuring costs, net | (7,891) | (2,107) | (17,931) | (4,107) |
| Loss on sales of assets | (3,398) | — | (3,398) | — |
| Consolidated operating loss | $ (19,214) | $ (65,098) | $ (54,790) | $ (97,423) |

*(a) Video revenues for the three months ended September 30, 2009 and 2008, include revenues of $0.1 million and $15.1 million, respectively, attributable to divested or exited product lines. Video revenues for the nine months ended September 30, 2009 and 2008 include revenues of $1.9 million and $50.2 million, respectively, attributable to divested or exited product lines.*

## 17. RESTRUCTURING COSTS AND ACCRUALS

In October 2008, the Company initiated a company-wide restructuring plan (the "Plan") that included a reduction in force of approximately 500 positions, including employees related to product line divestitures, and the closure of all or parts of some facilities worldwide. The Plan is intended to improve operational efficiencies. In connection with the Plan, during the fourth quarter of 2008 the Company recorded restructuring charges of $20.4 million related to employee termination costs and $0.5 million for the closure of three small facilities. In addition, as a result of the decision to sell the PCTV product line, the Company recorded a non-cash restructuring charge of $1.9 million in cost of revenues related to the write-down of inventory. Of the total restructuring charge of $22.8 million recorded in the fourth quarter of 2008, $16.9 million related to the Video segment, $3.3 million related to the Audio segment and $2.6 million related to corporate operations.

During the first nine months of 2009, the Company recorded new restructuring charges totaling $16.4 million under the Plan, of which $7.9 million related to the closure of all or part of eleven facilities, including non-cash charges of $1.3 million resulting from the retirement of fixed assets; $7.7 million related to the termination of the employment of approximately 200 additional employees; and a non-cash charge of $0.8 million, recorded in cost of revenues, related to the write-down of PCTV inventory not included in assets held-for-sale. These charges included restructuring activities initiated during the third quarter of 2009 under the Plan, which were the result of increased economic pressures and the expansion of the Company's global development program, resulted in charges of $4.6 million and $3.6 million related to severance and lease obligations, respectively. The third quarter activities included an additional reduction in force of approximately 150 positions and the closure of one floor of the Audio segment's Daly City, California facility. As a result of the Daly City facility actions, the Company anticipates that additional restructuring charges of approximately $4 million, including additional non-cash charges of $1 million, will be recorded in the fourth quarter of 2009.

Also during the first nine months of 2009, the Company recorded revisions of $1.5 million and $0.1 million, respectively, to previously recorded restructuring estimates for severance and facility obligations related to the Plan. Plan restructuring charges recorded in the first nine months of 2009 included $6.4 million related to corporate operations, $5.0 million related to the Video segment and $5.0 million related to the Audio segment. In connection with restructuring actions taken under the Plan, the Company has incurred or expects to incur total restructuring charges of approximately $45 million.

During the first quarter of 2008, the Company initiated restructuring plans within its Video business unit and corporate operations to eliminate duplicative business functions and improve operational efficiencies. During the first quarter of 2008, restructuring charges of $1.2 million were recorded under these plans related to employee termination costs for 20 employees, primarily in the marketing and selling teams and general and administrative teams. During the second quarter of 2008, the Company recorded restructuring charges of $1.0 million under these plans primarily related to employee termination costs for 26 employees, mainly in the research and development teams and sales and marketing teams. During the third quarter of 2008, the Company recorded restructuring charges of $2.0 million under these plans primarily related to employee termination costs for 45 employees, mainly in the research and development teams and general and administrative teams. During the third quarter of 2009, the Company recorded a final revision for these restructuring activities that resulted in a recovery of ($0.1) million. Also during 2008, restructuring charges totaling $0.2 million were recorded for revised estimates of previously initiated restructuring plans.

The Company recorded the facility-related restructuring charges and, prior to the fourth quarter of 2008, the employee-related restructuring charges in accordance with the guidance of FASB ASC topic 420, *Liabilities: Exit or Disposal Cost Obligations* (formerly SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*). Since the fourth quarter of 2008, as a result of changes in the Company's policies related to the calculation of severance benefits, the Company has accounted for employee-related restructuring charges as an ongoing benefit arrangement in accordance with FASB ASC topic 712, *Compensation – Nonretirement Postemployment Benefits* (formerly SFAS No. 112, *Employers' Accounting for Postemployment Benefits*). Restructuring charges and accruals require significant estimates and assumptions, including sub-lease income assumptions. These estimates and assumptions are monitored on at least a quarterly basis for changes in circumstances and any corresponding adjustments to the accrual are recorded in the Company's statement of operations in the period when such changes are known.

The following table sets forth the activity in the restructuring accruals for the nine months ended September 30, 2009 (in thousands):

| | Non-Acquisition-Related Restructuring Liabilities | | Acquisition-Related Facilities Restructuring Liabilities | |
|---|---|---|---|---|
| | Employee-Related | Facilities-Related & Other | | Total |
| Accrual balance at December 31, 2008 | $ 15,089 | $ 2,199 | $ 829 | $ 18,117 |
| New restructuring charges – operating expenses | 7,721 | 7,906 | — | 15,627 |
| New restructuring charges – cost of revenues | — | 799 | — | 799 |
| Revisions of estimated liabilities | 1,382 | 141 | (18) | 1,505 |
| Accretion | — | 153 | 31 | 184 |
| Cash payments for employee-related charges | (18,311) | — | — | (18,311) |
| Cash payments for facilities, net of sublease income | — | (2,970) | (332) | (3,302) |
| Non-cash write-offs | — | (2,098) | — | (2,098) |
| Foreign exchange impact on ending balance | (481) | 239 | 67 | (175) |
| Accrual balance at September 30, 2009 | $ 5,400 | $ 6,369 | $ 577 | $ 12,346 |

The employee-related accruals at September 30, 2009 represent severance and outplacement costs to former employees that will be paid out within the next twelve months and are, therefore, included in the caption "accrued expenses and other current liabilities" in the Company's consolidated balance sheet at September 30, 2009.

The facilities-related accruals at September 30, 2009 represent estimated losses, net of subleases, on space vacated as part of the Company's restructuring actions. The leases, and payments against the amounts accrued, will extend through 2017 unless the Company is able to negotiate earlier terminations. Of the total facilities-related accruals, $5.2 million is included in the caption "accrued expenses and other current liabilities" and $1.7 million is included in the caption "long-term liabilities" in the Company's consolidated balance sheet at September 30, 2009.

## 18. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, which is incorporated into FASB ASC topic 105. SFAS No. 168 replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, and establishes only two levels of U.S. generally accepted accounting principles ("GAAP"), authoritative and nonauthoritative. Upon adoption the FASB Accounting Standards Codification (the "Codification") becomes the single source for authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission ("SEC"), which are also sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative. This standard is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. Accordingly, the Company began to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP in the financial statements for the quarterly period ended September 30, 2009. As the Codification was not intended to change or alter existing GAAP, it did not have any impact on the Company's financial position or results of operations.

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements*, an amendment to FASB ASC topic 605, *Revenue Recognition*, and Update No. 2009-14, *Certain Revenue Arrangements That Include Software Elements*, an amendment to FASB ASC subtopic 985-605, *Software – Revenue Recognition* (the "Updates"). The Updates provide guidance on arrangements that include software elements, including tangible products that have software components that are essential to the functionality of the tangible product and will no longer be within the scope of the software revenue recognition guidance, and software-enabled products that will now be subject to other relevant revenue recognition guidance. The Updates also provide authoritative guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The Updates also include new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. The Updates must be adopted in the same period using the same transition method and are effective prospectively, with retrospective adoption permitted, for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, or January 1, 2011 for Avid. Early adoption is also permitted; however, early adoption during an interim period requires retrospective application from the beginning of the fiscal year. The Company is currently assessing the timing and method of adoption, as well as the possible impact of this guidance on its financial position and results of operations.

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

### EXECUTIVE OVERVIEW

***Our Company***

We create digital audio and video technology used to make the most listened to, most watched and most loved media in the world – from the most prestigious and award-winning feature films, music recordings, television shows, live concert tours and news broadcasts, to music and movies made at home. Some of our most influential and pioneering solutions include Media Composer, Pro Tools, Avid Unity, Interplay, Oxygen 8, Sibelius and Pinnacle Studio. Our mission is to inspire passion, unleash creativity and enable our customers to realize their dreams in a digital world. Anyone who enjoys movies, television or music has almost certainly experienced the work of content creators who use our solutions to bring their creative visions to life.

We operate our business based on the following five customer-centric strategic principles:

- ***Drive customer success*****.** We are committed to making each and every customer successful. Period. It's that simple.
- ***From enthusiasts to the enterprise.*** Whether performing live or telling a story to sharing a vision or broadcasting the news – we create products to support our customers at all stages.
- ***Fluid, dependable workflows*****.** Reliability. Flexibility. Ease of Use. High Performance. We provide best-in-class workflows to make our customers more productive and competitive.
- ***Collaborative support*****.** For the individual user, the workgroup, a community or the enterprise, we enable a collaborative environment for success.
- ***Avid optimized in an open ecosystem*****.** Our products are innovative, reliable, integrated and best-of-breed. We work in partnership with a third-party community resulting in superior interoperability.

We are deeply committed to the long-term success of our company and that of our customers. In 2008, we initiated a significant transformation of our business that included, among other things, establishing a new management team, developing a new corporate strategy, restructuring our internal organization, improving operational efficiencies, divesting non-core product lines and reducing the size of our workforce. We have established a strategic and organizational foundation from which we are positioned to build momentum in our core business and expand our operating margins with the ultimate goal of sustainable growth.

As part of this transformation, on January 1, 2009 we transitioned to a new business structure that combined our previous Professional Video and Consumer Video business units into a single Video reporting segment and features a single customer-facing organization. The transition to a single customer-facing organization better aligns us with the realities of many of our customers who either depend on, or would benefit from, an integrated solution that encompasses multiple Avid product and brand families. It also enables us to leverage our deep domain expertise, brand recognition and technology synergies across customer market segments. See Note 16 to our unaudited condensed consolidated financial statements included in Item 1 of this report for a summary of our revenues and contribution margin by reportable segment for the three- and nine-month periods ended September 30, 2009 and 2008.

We routinely post important information for investors on the Investors page of our website at www.avid.com.

***Financial Summary***

Our revenues for the three months ended September 30, 2009 were $152.1 million, a decrease of 30% compared to the same period last year. By business unit, Video revenues decreased 36% and Audio revenues decreased 18%. Our revenues for the nine months ended September 30, 2009 were $454.3 million, a decrease of 29% compared to the same period last year. By business unit, Video revenues decreased 36% and Audio revenues decreased 16%. Of the $148.6 million decrease in Video revenues during the first nine months of 2009, decreases of $43.2 million and $5.2 million for Video product revenues and Video services revenues, respectively, were attributable to divested or exited product lines.

Our gross margins for the three- and nine-month periods ended September 30, 2009 improved to 53.2% and 51.0%, respectively, from 47.3% and 47.6% for the comparable periods in 2008. The improvements for both the three-and nine-month periods were largely the result of our transition to a single company-wide production and delivery organization and the divestiture of lower-margin products. The favorable adjustment of a royalty accrual in the second quarter of 2009 was also a significant contributing factor for the improvement for the nine-month period.

Our operating expenses for the three- and nine-month periods ended September 30, 2009 were $100.1 million and $286.5 million, respectively, compared to $167.9 million and $401.1 million for the same periods in 2008. Operating expenses for the 2008 periods included charges of $51.3 million for the impairment of goodwill and an intangible asset recorded in the third quarter of 2008. The remaining decreases of $16.5 million and $63.3 million, respectively, were primarily the result of our business transformation, including product line divestitures and a restructuring plan initiated in the fourth quarter of 2008. Prior to the third quarter of 2009, this restructuring plan had resulted in a reduction in force of more than 500 positions, including employees associated with product line divestitures, and the closure of all or parts of twelve facilities worldwide.

During the third quarter of 2009, as a result of increased economic pressures and the expansion of our global development program, we broadened the restructuring plan to include an additional reduction in force of approximately 150 positions and the closure of one floor of our Audio segment’s Daly City, California facility. As a result, we recorded new restructuring charges of $8.2 million in the third quarter of 2009, which included a non-cash charge of $1.0 million related to the retirement of fixed assets in Daly City. As a result of the Daly City facility action, we anticipate that additional restructuring charges of approximately $4 million, including additional non-cash charges of $1 million, will be recorded in the fourth quarter of 2009.

In connection with restructuring actions initiated in the fourth quarter of 2008 and the first nine months of 2009, we have incurred or expect to incur total restructuring charges of approximately $45 million, which primarily represent cash expenditures. We expect annual cost savings of approximately $65 million to result from these actions, some of which are already reflected in our 2009 results. Cash expenditures resulting from restructuring obligations totaled approximately $21.6 million during the first nine months of 2009. We may engage in additional cost reduction programs, including restructuring actions, in the future as a result of changing economic conditions as well as our ongoing business transformation.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our management’s discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. We make estimates and assumptions in the preparation of our consolidated financial statements that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. However, actual results may differ from these estimates.

We believe that our critical accounting policies are those related to revenue recognition and allowances for product returns and exchanges, stock-based compensation, allowances for bad debts and reserves for recourse under financing transactions, inventories, business combinations, goodwill and intangible assets, divestitures, fair value measurements, and income tax assets. We believe these policies are critical because they are important to the portrayal of our financial condition and results of operations, and they require us to make judgments and estimates about matters that are inherently uncertain. Our critical accounting policies may be found in our

2008 Annual Report on 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 sales of computer-based digital, nonlinear media-editing and finishing systems and related peripherals, including shared-storage systems, software licenses, and related professional services and maintenance contracts.

| | Three Months Ended September 30, 2009 and 2008 (dollars in thousands) | | | | | |
|---|---|---|---|---|---|---|
| | 2009 Net Revenues | % of Consolidated Net Revenues | 2008 Net Revenues | % of Consolidated Net Revenues | Change | % Change in Revenues |
| Video: | | | | | | |
| Product revenues | $ 65,124 | 42.8% | $112,155 | 51.6% | ($47,031) | (41.9%) |
| Services revenues | 27,493 | 18.1% | 32,680 | 15.1% | (5,187) | (15.9%) |
| Total | 92,617 | 60.9% | 144,835 | 66.7% | (52,218) | (36.1%) |
| Audio: | | | | | | |
| Product revenues | 58,398 | 38.4% | 71,531 | 33.0% | (13,133) | (18.4%) |
| Services revenues | 1,104 | 0.7% | 700 | 0.3% | 404 | 57.7% |
| Total | 59,502 | 39.1% | 72,231 | 33.3% | (12,729) | (17.6%) |
| Total net revenues: | $152,119 | 100.0% | $217,066 | 100.0% | ($64,947) | (29.9%) |

| | Nine Months Ended September 30, 2009 and 2008 (dollars in thousands) | | | | | |
|---|---|---|---|---|---|---|
| | 2009 Net Revenues | % of Consolidated Net Revenues | 2008 Net Revenues | % of Consolidated Net Revenues | Change | % Change in Revenues |
| Video: | | | | | | |
| Product revenues | $186,581 | 41.1% | $322,421 | 50.5% | ($135,840) | (42.1%) |
| Services revenues | 82,237 | 18.1% | 94,989 | 14.9% | (12,752) | (13.4%) |
| Total | 268,818 | 59.2% | 417,410 | 65.4% | (148,592) | (35.6%) |
| Audio: | | | | | | |
| Product revenues | 182,494 | 40.2% | 218,556 | 34.2% | (36,062) | (16.5%) |
| Services revenues | 2,979 | 0.6% | 2,229 | 0.4% | 750 | 33.6% |
| Total | 185,473 | 40.8% | 220,785 | 34.6% | (35,312) | (16.0%) |
| Total net revenues: | $454,291 | 100.0% | $638,195 | 100.0% | ($183,904) | (28.8%) |

The decreases in Video product revenues for the three- and nine-month periods ended September 30, 2009, compared to the same periods in 2008, included decreases of $13.1 million and $43.2 million, respectively, due to divested or exited product lines. For both periods, compared to the same periods in 2008, Video product revenues were down for all products in all geographic regions, largely due to lower sales volumes. We believe unfavorable macroeconomic conditions were the most significant factor in the decreases in our revenues for both periods. Throughout this year for example, broadcasters have had to deal with the financial challenges of decreasing

advertising revenue, and capital expenditure budgets for many of our customers have been reduced as a result of tight credit markets. Internationally, changes in currency exchange rates also contributed to the decreases in our Video product revenues for the periods.

Video services revenues are derived primarily from maintenance contracts, professional and installation services, and training. The decreases in Video services revenues for the three- and nine-month periods ended September 30, 2009, compared to the same periods in 2008, included decreases of $1.9 million and $5.2 million, respectively, related to divested or exited product lines. The remaining decreases of $3.3 million and $7.6 million for the three- and nine-month periods, respectively, were largely the result of decreases in both maintenance and professional services revenues. The decreases in maintenance revenues were primarily the result of changes in currency exchange rates, while the decreases in professional services revenues were largely due to lower volumes of services provided.

The decreases in Audio product revenues for the three- and nine-month periods ended September 30, 2009, compared to the same periods in 2008, were primarily due to lower revenues on lower volumes of our higher-end audio product lines, which we believe largely resulted from decreased capital expenditure budgets for our customers of these high-end products. For the nine-month period, lower product revenues in Europe, which we believe were largely attributable to unfavorable macroeconomic conditions and changes in currency exchange rates, also contributed significantly to our decrease in Audio product revenues.

Net revenues derived through indirect channels were 67% and 66% of our net revenues for the three- and nine-month periods ended September 30, 2009, respectively, compared to 71% for both 2008 periods.

Sales to customers outside the United States accounted for 57% and 56% of our net revenues for the three- and nine-month periods ended September 30, 2009, respectively, compared to 60% for both 2008 periods.

***Gross Margin***

Cost of revenues consists primarily of costs associated with:

- the procurement of components;
- the assembly, testing and distribution of finished products;
- warehousing;
- customer support costs related to maintenance contract revenues and other services; and
- royalties for third-party software and hardware included in our products.

Cost of revenues also includes amortization of technology, which represents the amortization of developed technology assets acquired in business combinations. Amortization of technology is described further in the “Amortization of Intangible Assets” section below. Cost of revenues for the nine-month period ended September 30, 2009 included a charge of $0.8 million for the write-down of inventory related to the divestiture of our PCTV product line in the fourth quarter of 2008.

Gross margins fluctuate based on factors such as the mix of products and services sold, the cost and proportion of third-party hardware and software included in the products 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 and currency exchange rate fluctuations.

| | Three Months Ended September 30, 2009 and 2008 (dollars in thousands) | | | | |
|---|---|---|---|---|---|
| | 2009 | Gross Margin | 2008 | Gross Margin | Gross Margin Change |
| Cost of products revenues | $57,097 | 53.8% | $ 94,303 | 48.7% | 5.1% |
| Cost of services revenues | 13,586 | 52.5% | 18,744 | 43.8% | 8.7% |
| Amortization of intangible assets | 519 | – | 1,249 | – | – |
| Total | $71,202 | 53.2% | $114,296 | 47.3% | 5.9% |

| | Nine Months Ended September 30, 2009 and 2008 (dollars in thousands) | | | | |
|---|---|---|---|---|---|
| | 2009 | Gross Margin | 2008 | Gross Margin | Gross Margin Change |
| Cost of products revenues | $176,774 | 52.1% | $272,004 | 49.7% | 2.4% |
| Cost of services revenues | 43,515 | 48.9% | 55,760 | 42.6% | 6.3% |
| Amortization of intangible assets | 1,465 | – | 6,773 | – | – |
| Restructuring costs | 799 | – | – | – | – |
| Total | $222,553 | 51.0% | $334,537 | 47.6% | 3.4% |

Our transition to a single company-wide production and delivery organization and the divestiture of lower-margin product lines were contributing factors to our improved product gross margins for the three- and nine-month periods ended September 30, 2009, compared to the same periods last year. In addition, a favorable adjustment of $2.1 million to a royalty accrual recorded during the second quarter of 2009 was a significant contributing factor to the improvement for the nine-month period. These improvements were partially offset by the impact on revenues of changes in foreign currency exchange rates.

The increases in services gross margin were primarily the result of improved efficiencies from our creation of a single customer-facing service organization.

***Research and Development***

Research and development expenses include costs associated with the development of new products and the enhancement of existing products, and consist primarily of employee salaries and benefits, facilities costs, depreciation, costs for consulting and temporary employees, and prototype and other development expenses.

| | Three Months Ended September 30, 2009 and 2008 (dollars in thousands) | | | |
|---|---|---|---|---|
| | 2009 Expenses | 2008 Expenses | Change | % Change |
| Research and development | $29,262 | $37,825 | ($8,563) | (22.6%) |
| As a percentage of net revenues | 19.2% | 17.4% | 1.8% | |

| | Nine Months Ended September 30, 2009 and 2008 (dollars in thousands) | | | |
|---|---|---|---|---|
| | 2009 Expenses | 2008 Expenses | Change | % Change |
| Research and development | $90,974 | $115,307 | ($24,333) | (21.1%) |
| As a percentage of net revenues | 20.0% | 18.1% | 1.9% | |

The decreases in research and development expenses for the three- and nine-month periods ended September 30, 2009, compared to the same periods in 2008, were primarily due to decreased personnel-related costs of $6.4 million and $19.9 million, respectively, both resulting from reduced headcount. In addition, a $2.5 million decrease in computer hardware and supplies expenses was a contributing factor to the improvement for the nine-month period. The increases in research and development expenses as a percentage of revenues for both the three- and nine-month periods ended September 30, 2009 were the result of the decreases in revenues for the periods compared to the same periods in 2008.

***Marketing and Selling***

Marketing and selling expenses consist primarily of employee salaries and benefits for selling, marketing and pre-sales customer support personnel; commissions; travel expenses; advertising and promotional expenses; and facilities costs.

| | Three Months Ended September 30, 2009 and 2008 (dollars in thousands) | | | |
|---|---|---|---|---|
| | 2009 Expenses | 2008 Expenses | Change | % Change |
| Marketing and selling | $44,705 | $53,638 | ($8,933) | (16.7%) |
| As a percentage of net revenues | 29.4% | 24.7% | 4.7% | |

| | Nine Months Ended September 30, 2009 and 2008 (dollars in thousands) | | | |
|---|---|---|---|---|
| | 2009 Expenses | 2008 Expenses | Change | % Change |
| Marketing and selling | $127,480 | $159,224 | ($31,744) | (19.9%) |
| As a percentage of net revenues | 28.1% | 24.9% | 3.2% | |

The decrease in marketing and selling expenses for the three-month period ended September 30, 2009, compared to the same period in 2008, was largely due to lower personnel-related costs and a decrease in corporate facility and information technology infrastructure allocations. Personnel-related costs decreased $5.5 million, primarily due to decreased headcount. Corporate facility and information technology infrastructure allocations decreased $1.0 million, primarily resulting from the closure of certain facilities and improved operating efficiencies related to our corporate transformation initiated in 2008.

The decrease in marketing and selling expenses for the nine-month period ended September 30, 2009, compared to the same period in 2008, was largely due to lower personnel-related costs; decreased advertising, tradeshow and other promotional expenses; decreased travel and entertainment expenses; and lower corporate facility and information technology infrastructure allocations. Personnel-related costs decreased $16.7 million, primarily due to decreased headcount; advertising, tradeshow and other promotional expenses decreased $6.5 million; travel and entertainment expenses decreased $3.1 million; and corporate facility and information technology infrastructure allocations decreased $2.6 million, primarily resulting from the closure of certain facilities and improved operating efficiencies related to our corporate transformation initiated in 2008.

The increases in marketing and selling expenses as a percentage of revenues for both the three- and nine-month periods ended September 30, 2009 were the result of the decreases in revenues for the periods compared to the same periods in 2008.

***General and Administrative***

General and administrative expenses consist primarily of employee salaries and benefits for administrative, executive, finance and legal personnel; audit, legal and strategic consulting fees; and insurance, information systems and facilities costs. Information systems and facilities costs reported within general and administrative expenses are net of allocations to other expenses categories.

| | Three Months Ended September 30, 2009 and 2008 (dollars in thousands) | | | |
|---|---|---|---|---|
| | 2009 Expenses | 2008 Expenses | Change | % Change |
| General and administrative | $12,093 | $19,734 | ($7,641) | (38.7%) |
| As a percentage of net revenues | 7.9% | 9.1% | (1.2%) | |

| | Nine Months Ended September 30, 2009 and 2008 (dollars in thousands) | | | |
|---|---|---|---|---|
| | 2009 Expenses | 2008 Expenses | Change | % Change |
| General and administrative | $39,765 | $61,169 | ($21,404) | (35.0%) |
| As a percentage of net revenues | 8.8% | 9.6% | (0.8%) | |

The decreases in general and administrative expenses for both the three- and nine-month periods ended September 30, 2009, compared to the same periods in 2008, were due to lower personnel-related costs and decreases in consulting and outside services expenses. The personnel-related costs were lower by $3.8 million and $11.3 million for the three- and nine-month periods, respectively, and were the result of reduced headcount. The decreases in consulting and outside services expenses for the three- and nine-month periods were $2.4 million and $7.0 million, respectively, and were largely the result of the absence of consulting costs, present in the second and third quarters of 2008, related to the strategic review and transformation of our business.

The decreases in general and administrative expenses as a percentage of revenues for both the three- and nine-month periods ended September 30, 2009, compared to the same periods in 2008, were the result of proportionally larger decreases in expenses than the decreases in revenues for the 2009 periods.

***Amortization of Intangible Assets***

Intangible assets result from acquisitions and include developed technology, customer-related intangibles, trade names and other identifiable intangible assets with finite lives. With the exception of developed technology, these intangible assets are amortized using the straight-line method. Developed technology is amortized over the greater of (1) the amount calculated using the ratio of current quarter revenues to the total of current quarter and anticipated future revenues over the estimated useful life of the developed technology, and (2) the straight-line method over each developed technology's remaining useful life. Amortization of developed technology is recorded within cost of revenues. Amortization of customer-related intangibles, trade names and other identifiable intangible assets is recorded within operating expenses.

| | Three Months Ended September 30, 2009 and 2008 (dollars in thousands) | | | |
|---|---|---|---|---|
| | 2009 | 2008 | Change | % Change |
| Amortization of intangible assets recorded in cost of revenues | $ 519 | $1,249 | ($730) | (58.4%) |
| Amortization of intangible assets recorded in operating expenses | 2,782 | 3,307 | (525) | (15.9%) |
| Total amortization of intangible assets | $3,301 | $4,556 | ($1,255) | (27.5%) |
| Total amortization of intangible assets as a percentage of net revenues | 2.2% | 2.1% | 0.1% | |

| | Nine Months Ended September 30, 2009 and 2008 (dollars in thousands) | | | |
|---|---|---|---|---|
| | 2009 | 2008 | Change | % Change |
| Amortization of intangible assets recorded in cost of revenues | $1,465 | $ 6,773 | ($5,308) | (78.4%) |
| Amortization of intangible assets recorded in operating expenses | 7,779 | 10,017 | (2,238) | (22.3%) |
| Total amortization of intangible assets | $9,244 | $16,790 | ($7,546) | (44.9%) |
| Total amortization of intangible assets as a percentage of net revenues | 2.0% | 2.6% | (0.6%) | |

For both the three- and nine-month periods ended September 30, 2009, compared to the same periods in 2008, the decreases in amortization of intangible assets recorded in cost of revenues were primarily the result of the completion during 2008 and early 2009 of the amortization of certain developed technologies related to our acquisitions of Pinnacle, Sundance and M-Audio; partially offset by amortization resulting from the acquisition of MaxT Systems Inc. in the third quarter of 2009. The decreases in amortization recorded in operating expenses for the same periods were primarily the result of the impairments of intangible assets recorded in the third and fourth quarters of 2008.

***Impairment of Goodwill and Intangible Assets***

In accordance with the Financial Accounting Standards Board Accounting Standards Codification section 350-20-35, *Intangibles-Goodwill and Other: Goodwill: Subsequent Measurement* (formerly SFAS No. 142, *Goodwill and Other Intangible Assets*), goodwill is tested for impairment when events and circumstances occur that indicate that the recorded goodwill may be impaired. In September 2008, as a result of a decrease in market value for, and the expected sale of, our PCTV product line, which has historically accounted for a significant portion of Consumer Video segment revenues, we tested the goodwill assigned to our then Consumer Video reporting unit for impairment. Because the book value of the Consumer Video goodwill exceeded the implied fair value by $46.6 million, we recorded this amount as an impairment loss during the quarter ended September 30, 2008. In connection with this goodwill impairment loss, we also tested the Consumer Video identifiable intangible assets for impairment. As a result, we determined that a trade name intangible asset was impaired, and we recorded an impairment loss of $4.7 million to write this asset down to its then-current fair value. During the fourth quarter of 2008, we completed the sale of our PCTV product line, and on January 1, 2009, the remainder of our Consumer Video operating unit was combined with our Professional Video business unit to form a single Video reporting segment.

Our annual goodwill impairment testing, which is scheduled to take place in the fourth quarter of 2009, could result in the recording of additional goodwill and intangible asset impairment. During the fourth quarter, we also establish our forecasts and budget for the following year. Based on the current market conditions and our forecast expectations, we do not anticipate that such impairments will be recorded; however, changes in these or other factors could result in the recording of impairments during the three months ending December 31, 2009. At our last impairment test date, the fair values of our Video and Audio reporting units exceeded their carrying values by 25% and 13%, respectively. There were no interim indicators of impairment during the three months ended September 30, 2009. See Note 6 to our unaudited condensed consolidated financial statements included in Item 1 of this report for the goodwill assigned to each of our reporting segments and details of our identifiable intangible assets. For further information regarding our policy for testing goodwill and intangible asset impairment, including the methodologies, assumptions and estimates applied to our 2008 impairment testing, please see our critical accounting policy for “Goodwill and Intangible Assets” found in our 2008 Annual Report on 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.”

***Restructuring Costs, Net***

In October 2008, we initiated a company-wide restructuring plan that included a reduction in force of approximately 500 positions, including employees related to our product line divestitures, and the closure of all or parts of some of our worldwide facilities. The restructuring plan is intended to improve operational efficiencies. In connection with the plan, during the fourth quarter of 2008, we recorded restructuring charges of $20.4 million related to employee termination costs and $0.5 million for the closure of three small facilities. In addition, as a result of the decision to sell the PCTV product line, we recorded a non-cash restructuring charge of $1.9 million in cost of revenues related to the write-down of inventory.

During the first nine months of 2009, we recorded new restructuring charges totaling $16.4 million, of which $7.9 million related to the closure of all or part of eleven facilities; $7.7 million related to the termination of the employment of approximately 200 additional employees; and $0.8 million, recorded in cost of revenues, related to the write-down of PCTV inventory. Restructuring activities initiated during the third quarter of 2009 include the closure of one floor of our Audio segment's Daly City, California facility. As a result of the Daly City facility actions, we anticipate that additional restructuring charges of approximately $4 million, including additional non-cash charges of $1 million, will be recorded in the fourth quarter of 2009. Also during the first nine months of 2009, we recorded revisions of $1.5 million and $0.1 million, respectively, to previously recorded restructuring estimates for severance and facility obligations related to this plan.

During the first quarter of 2008, we initiated restructuring plans within our Video business unit and corporate operations to eliminate duplicative business functions and improve operational efficiencies. During the first quarter of 2008, we recorded restructuring charges of $1.2 million under these plans related to employee termination costs for 20 employees, primarily in the marketing and selling teams and general and administrative teams. During the second quarter of 2008, we recorded restructuring charges of $1.0 million under these plans primarily related to employee termination costs for 26 employees, primarily in the research and development teams and sales and marketing teams. During the third quarter of 2008, we recorded restructuring charges of $2.0 million under these plans primarily related to employee termination costs for 45 employees, primarily in the research and development teams and general and administrative teams.

***Loss on Sales of Assets***

During the third quarter of 2009, we recorded a loss on the sale of assets of $3.2 million related to our sale of the PCTV product line, which occurred in the fourth quarter of 2008. The loss resulted from the write-down of PCTV inventory classified as held-for-sale.

***Interest and Other Income (Expense), Net***

Interest and other income (expense), net, generally consists of interest income and interest expense.

| | Three Months Ended September 30, 2009 and 2008 (dollars in thousands) | | | |
|---|---|---|---|---|
| | 2009 | 2008 | Change | % Change |
| Interest and other income (expense), net | $(240) | $507 | ($747) | (147.3%) |
| As a percentage of net revenues | (0.2%) | 0.2% | (0.4%) | |

| | Nine Months Ended September 30, 2009 and 2008 (dollars in thousands) | | | |
|---|---|---|---|---|
| | 2009 | 2008 | Change | % Change |
| Interest and other income (expense), net | ($29) | $2,605 | ($2,634) | (101.1%) |
| As a percentage of net revenues | (0.0%) | 0.4% | (0.4%) | |

The decreases in interest and other income (expense), net for the three- and nine-month periods ended September 30, 2009, compared to the same periods in 2008, were primarily the result of lower interest rates paid on cash balances, as well as lower average cash balances. Additionally, for the three month periods ended September 30, 2009 and 2008, an increase in interest and other expenses during the 2009 period was a significant factor in the net expense for the period.

***(Benefit from) Provision for Income Taxes, Net***

| | Three Months Ended September 30, 2009 and 2008 (dollars in thousands) | | |
|---|---|---|---|
| | 2009 | 2008 | Change |
| (Benefit from) provision for income taxes, net | ($2,246) | 1,800 | ($4,046) |
| As a percentage of net revenues | (1.5%) | 0.8% | (2.3%) |

| | Nine Months Ended September 30, 2009 and 2008 (dollars in thousands) | | |
|---|---|---|---|
| | 2009 | 2008 | Change |
| (Benefit from) provision for income taxes, net | ($4,385) | 3,106 | ($7,491) |
| As a percentage of net revenues | (1.0%) | 0.5% | (1.5%) |

Our effective tax rate, which represents a tax benefit as a percentage of loss before income taxes, was 8% for the nine-month period ended September 30, 2009. Our effective tax rate, which represents a tax provision as a percentage of loss before income taxes, was (3%) for the nine-month period ended September 30, 2008. The primary reasons for the change from a tax provision to a tax benefit were favorable discrete tax benefits of $2.8 million from the net release of income tax reserves primarily related to the completion of a foreign tax audit, $1.6 million for cumulative adjustments of prior year tax provisions to actual tax return filings, $1.0 million from the utilization of unused research and development tax credits and $0.6 million from the partial release of a valuation allowance on deferred tax assets in a foreign subsidiary. No tax benefit is provided for losses generated in the United States due to the full valuation allowance on our U.S. deferred tax assets.

Excluding the impact of our valuation allowance, our effective tax rates would have been 48% and 16%, respectively, for the nine-month periods ended September 30, 2009 and 2008. These rates may differ from the federal statutory rate of 35% due to the net benefits recorded for discrete tax items, the impact of permanent differences in the United States, and the mix of income and losses in foreign jurisdictions, which have tax rates that differ from the statutory rate.

## LIQUIDITY AND CAPITAL RESOURCES

***Current Cash Flows and Commitments***

We have funded our operations in recent years through cash flows from operations and stock option exercises. At September 30, 2009, our principal sources of liquidity included cash, cash equivalents and marketable securities totaling $103.0 million.

Net cash used in operating activities was $32.0 million for the nine months ended September 30, 2009, compared to $6.0 million provided by operating activities for the same period in 2008. For the nine months ended September 30, 2009, net cash used in operating activities primarily reflected our net loss adjusted for depreciation and amortization and stock-based compensation expense, as well as changes in working capital items, in particular decreases in accrued liabilities and deferred revenues, partially offset by a decrease in accounts receivable. The decrease in accrued liabilities during the first nine months of 2009 was the result of cash expenditures related to restructuring obligations, as well as payments for other obligations accrued at December 31, 2008, including taxes, royalties and tariffs. For the nine months ended September 30, 2008, net cash provided by operating activities primarily reflected our net loss adjusted for depreciation and amortization, goodwill and intangible asset impairment charges, and stock-based compensation, as well as changes in working capital items, in particular a decrease in accounts receivable, partially offset by an increase in inventories and decreases in accounts payable, accrued expenses and income taxes payable.

Accounts receivable decreased $17.0 million to $86.5 million at September 30, 2009 from $103.5 million at December 31, 2008. These balances are net of allowances for sales returns, bad debts and customer rebates, all of which we estimate and record based primarily on historical experience. The decrease in accounts receivable was primarily the result of the effect of the decrease in revenues in the third quarter of 2009, compared to the fourth quarter of 2008. Days sales outstanding increased from 45 days at December 31, 2008 to 51 days at September 30, 2009.

At September 30, 2009 and December 31, 2008, we held inventory in the amounts of $91.7 million and $95.8 million, respectively. These balances included stockroom, spares and demonstration equipment inventories at various locations, as well as inventory at customer sites related to shipments for which we had not yet recognized revenue. We review all inventory balances regularly for excess quantities or potential obsolescence and make appropriate adjustments as needed to write down the inventories to reflect their estimated realizable value. We source inventory products and components pursuant to purchase orders placed from time to time.

Net cash flow used in investing activities was $12.6 million for the nine months ended September 30, 2009, compared to $24.6 million for the same period in 2008. The net cash flow used in investing activities for the nine months ended September 30, 2009 primarily reflected $9.6 million used for the purchase of property and equipment. The net cash flow used in investing activities for the nine months ended September 30, 2008, primarily reflected $12.4 million used for the purchase of property and equipment and net purchases of $10.9 million resulting from the timing of the sale and purchase of marketable securities. Property and equipment purchases in both periods consisted primarily of computer hardware and software to support our research and development activities and information systems.

During the nine months ended September 30, 2009, cash used in financing activities was $0.4 million, compared to $92.5 million for the same period in 2008. During the nine months ended September 30, 2009, the cash used in financing activities primarily reflected $0.5 million used to repurchase stock options during the second quarter of 2009. During the nine months ended September 30, 2008, the cash used in financing activities primarily reflected the $93.2 million used for our stock repurchase program in the first quarter of that year.

A stock repurchase program was approved by our board of directors in April 2007, which authorized the repurchase of up to $100 million of our common stock through transactions on the open market, in block trades or otherwise. The program has no expiration date. In February 2008, our board of directors approved a $100 million increase in authorized funds for the repurchase of our common stock under this program. During 2007, we repurchased 809,236 shares of our common stock under the program for a total purchase price, including commissions, of $26.6 million. During the three months ended March 31, 2008, we repurchased an additional 4,254,397 shares of our common stock for a total purchase price, including commissions, of $93.2 million, leaving $80.3 million authorized for future repurchases. The stock repurchase program is being funded through working capital.

In connection with restructuring activities during 2009 and prior periods, at September 30, 2009, we had restructuring accruals of $5.4 million and $6.9 million related to severance and lease obligations, respectively. Our future cash obligations for leases for which we have vacated the underlying facilities total approximately $10.2 million. The lease accruals represent the present value of the excess of our lease commitments on the vacated space over expected payments to be received on subleases of the relevant facilities. The lease payments will be made over the remaining terms of the leases, which have varying expiration dates through 2017, unless we are able to negotiate earlier terminations. The severance payments will be made during the next twelve months. During the fourth quarter of 2009, we will finalize the closure of one floor of our Audio segment’s Daly City, California facility. As a result of this closure, we anticipate that additional restructuring charges of approximately $4 million, including additional non-cash charges of $1 million, will be recorded in the fourth quarter of 2009. At that time, our future cash obligations for leases for which we have vacated the underlying facilities will increase by approximately $4 million. All payments related to restructuring actions are expected to be funded through working capital. See Note 17 of the unaudited condensed consolidated financial statements in Item 1 of this report for the restructuring costs and accruals activity for the nine months ended September 30, 2009.

Our cash requirements vary depending upon factors such as our growth, capital expenditures, acquisitions of businesses or technologies and obligations under restructuring plans. We believe that 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 that 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.

***Fair Value Measurements***

We value our cash and investment instruments using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. See Notes 3 and 4 to our unaudited condensed consolidated financial statements included in Item 1 of this report for the disclosure of the fair values and the inputs used to determine the fair values of our financial assets and financial liabilities.

## RECENT ACCOUNTING PRONOUNCEMENTS

See Notes 3 and 18 to our unaudited condensed consolidated financial statements included in Item 1 of this report for disclosure of the impact that recent accounting pronouncements have had or may have on our consolidated financial statements.

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

***Foreign Currency Exchange Risk***

We have significant international operations and, therefore, our revenues, earnings, cash flows and financial position are exposed to foreign currency risk from foreign currency denominated receivables, payables, sales transactions and net investments in foreign operations.

We derive more than 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 affect our revenues, net income and cash flow. To hedge against the foreign exchange exposure of certain forecasted receivables, payables and cash balances, we enter into short-term foreign currency forward contracts. There are two objectives of our foreign currency forward-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 our net monetary assets denominated in currencies other than the functional currency of the legal entity. These forward contracts typically mature within 30 days of execution. 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 and contract rates versus financial statement rates. To the extent these forecasts are overstated or understated during periods of currency volatility, we could experience unanticipated currency gains or losses.

At September 30, 2009, we had foreign currency forward contracts outstanding with an aggregate notional value of $24.9 million, denominated in the euro, Canadian dollar and Japanese yen, as a hedge against actual and forecasted foreign currency denominated receivables, payables and cash balances. The mark-to-market effect associated with these contracts was a net unrealized loss of $0.3 million at September 30, 2009. For the nine months ended September 30, 2009, net gains of $1.0 million resulting from the forward contracts were included in results of operations, and there were $0.6 million of net transaction and remeasurement gains on the related assets and liabilities.

Assuming the above-mentioned forecast of the hedged asset and liability positions is accurate, a hypothetical 10% change in the foreign currency exchange rates applied to both the foreign currency forward contracts and the underlying exposures would not have a material impact on our results of operations because the impact on the forward contracts as a result of the 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, 2009, we held $103.0 million in cash, cash equivalents and marketable securities, including short-term corporate obligations, asset-backed securities 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 maturities.

## ITEM 4. CONTROLS AND PROCEDURES

### *Evaluation of Disclosure 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 of September 30, 2009. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Security and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2009, our chief executive officer and chief financial officer concluded that, as of that date, our disclosure controls and procedures were not effective because of the identification of the material weakness discussed below.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected. We determined that we had mistakenly recognized revenue prior to transfer of title and risk of loss to our customers on certain shipments made in Europe. Accordingly, we have concluded that we have a material weakness in the design and operating effectiveness of our controls and procedures in Europe relating to ensuring that revenue is recognized only after transfer of title and risk of loss to the customer.

In light of this material weakness, we have performed additional analyses and procedures in order to conclude that our condensed consolidated financial statements for the period presented in this report are presented in accordance with generally accepted accounting principles in the United States of America for such financial statements. We also believe that any impact arising from the material weakness relating to prior periods is not material to our financial statements for any such prior period. We are evaluating the action to be taken to remediate the material weakness identified above and plan to take that action as soon as practicable after that evaluation is complete.

No change in our internal control over financial reporting occurred during the fiscal quarter ended September 30, 2009 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

We are involved in legal proceedings from time to time arising from the normal course of business activities, including claims of alleged infringement of intellectual property rights and commercial, employment, piracy prosecution and other matters. We do not believe these matters will have a material adverse effect on our financial position or results of operations. However, our financial position or results of operations may be negatively affected by the unfavorable resolution of one or more of these proceedings.

### ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described in Part I - Item 1A under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2008 in addition to the other information included or incorporated by reference in this quarterly report before making an investment decision regarding our common stock. If any of these risks actually occurs, our business, financial condition or operating results would likely suffer, possibly materially, the trading price of our common stock could decline, and you could lose part or all of your investment.

During the nine months ended September 30, 2009, there were no material changes to the risk factors that were disclosed in Part 1 - Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

***Issuer Purchases of Equity Securities***

The following table is a summary of our stock repurchases during the quarter ended September 30, 2009:

| Period | Total Number of Shares Repurchased(a) | Average Price Paid Per Share | Total Number of Shares Repurchased as Part of the Publicly Announced Program | Dollar Value of Shares That May Yet be Purchased Under the Program(b) |
|---|---|---|---|---|
| July 1 – July 31, 2009 | – | – | – | $80,325,905 |
| August 1 – August 31, 2009 | – | – | – | $80,325,905 |
| September 1 – September 30, 2009 | 1,983 | $14.80 | – | $80,325,905 |
| | 1,983 | $14.80 | – | $80,325,905 |

(a) In September 2009, we repurchased 1,983 shares of restricted stock from an employee to pay required withholding taxes upon the vesting of restricted stock.

(b) A stock repurchase program was approved by our board of directors in April 2007, which authorized the repurchase of up to $100 million of our common stock through transactions on the open market, in block trades or otherwise. In February 2008, our board of directors approved a $100 million increase in the authorized funds for the repurchase of our common stock under this program. During 2007, we repurchased 809,236 shares of our common stock under the program for a total purchase price, including commissions, of $26.6 million. During 2008, we repurchased an additional 4,254,397 shares of our common stock for a total purchase price, including commissions, of $93.2 million. As of September 30, 2009, $80.3 million remained available for future stock repurchases under the program. The stock repurchase program is funded through working capital and has no expiration date.

## ITEM 6. EXHIBITS

The list of exhibits, which are filed or furnished with this report or which are incorporated herein by reference, is set forth in the Exhibit Index immediately preceding the exhibits and is incorporated herein by reference.

**SIGNATURE**

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

Date: November 16, 2009

By: /s/ Ken Sexton

Ken Sexton
Executive Vice President, Chief Financial Officer and
Chief Administrative Officer
*(Principal Financial Officer)*

**EXHIBIT INDEX**

| Exhibit No. | Description | Filed with this Form 10-Q | Incorporated by Reference: Form or Schedule | SEC Filing Date | SEC File Number |
|---|---|---|---|---|---|
| #10.1 | Executive Employment Agreement dated July 21, 2009 between Registrant and Christopher C. Gahagan | X | | | |
| 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 | X | | | |
| 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 | X | | | |
| 32.1 | Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | X | | | |

# Management contract or compensatory plan identified pursuant to Item 15(a)3.

**Exhibit 10.1**

**EXECUTIVE EMPLOYMENT AGREEMENT**

AVID TECHNOLOGY, INC.

This Executive Employment Agreement (this "Agreement") is entered into as of July 21, 2009, by and between Avid Technology, Inc., a Delaware corporation with its principal executive offices at Avid Technology Park, One Park West, Tewksbury, Massachusetts 01876 (the "Company"), and Christopher C. Gahagan ("Executive").

Article 1. Services

1.1. Service. Commencing on July 21, 2009 (the "Effective Date") and throughout the Term (as defined below), Executive shall serve as Senior Vice President of Products upon the terms and conditions set forth below.

1.2. Duties. During the Term, Executive agrees to perform such executive duties consistent with his position as may be assigned to him from time to time by the Board of Directors of the Company (the "Board" or "Board of Directors"), the Chief Executive Officer or the Chief Administrative Officer and to devote his full working time and attention to such duties.

1.3. No Conflicting Commitments. During the Term, Executive will not undertake any commitments, engage or have an interest in any outside business activities or enter into any consulting agreements which, in the good faith determination of the Chief Executive Officer, conflict with the Company's interests or which might reasonably be expected to impair the performance of Executive's duties as a full-time employee of the Company. Notwithstanding the foregoing, Executive may pursue personal interests (including, without limitation, industry, civic and charitable activities) and attend to his personal investments, so long as such activities do not interfere with the performance of his duties hereunder.

Article 2. Term

2.1. Term. The term of this Agreement (the "Term") shall commence on the Effective Date and shall expire on July 21, 2012 unless the Term is:

2.1.1 extended pursuant to the provisions of this Section 2.1; or

2.1.2 terminated when the Executive's employment terminates pursuant to Section 4.1 hereof;

provided, however, that notwithstanding the foregoing, the Term shall continue to automatically be extended for periods of one (1) year so long as neither party provides written notice to the other of its intent to terminate by a date which is at least one hundred and eighty (180) days prior to the then-current expiration date of the Agreement, and, provided further, that (i) in the event that a Change-in-Control of the Company (as defined in Section 4.2.2) should occur during the twelve (12) months prior to the end of the then-current Term and Executive is still an employee of the Company at that time, then the Term shall be deemed to expire on the date that is twelve (12) months after the date of such Change-in-Control of the Company, (ii) in the event a

Potential Change-in-Control Period (as defined in Section 4.2.6) exists within the twelve (12) months prior to the end of the then-current Term and Executive is still an employee of the Company as of that date, the Term shall be deemed to expire on the date that is twelve (12) months after the commencement of such Potential Change-in-Control Period and (iii) the expiration of the Term shall not adversely affect Executive's rights under this Agreement which have accrued prior to such expiration. For the avoidance of doubt, if a Potential Change-in-Control Period shall commence in the twelve (12) months prior to the end of the then-current Term and a Change-in-Control of the Company shall also occur during such twelve (12) month period, and if Executive is still an employee of the Company on the date of the Change-in-Control of the Company, the Term shall be deemed to expire twelve (12) months after the date of such Change-in-Control. Unless the services of the Executive have terminated prior to or upon the end of the Term in accordance with the provisions of this Agreement, from and after the end of the Term, Executive shall be an employee-at-will.

## Article 3. Payments

3.1. Base Compensation. During the Term, the Company shall pay Executive an annual base salary (the "Base Salary") of Four Hundred Thousand Dollars ($400,000), payable in regular installments in accordance with the Company's usual payment practices. The Base Salary shall be reviewed by the Compensation Committee of the Board during the Term.

3.2. Incentive Payments. Commencing with the Company's fiscal year ending December 31, 2009 and thereafter during the remainder of the Term, Executive shall be eligible to participate in an annual performance bonus plan pursuant to which, as of the Effective Date, he shall be eligible to receive a target annual bonus equal to One Hundred percent (100%) of his then Base Salary (the "Target Bonus") for full attainment of his performance objectives (which may include Company-wide objectives), with a maximum annual bonus equal to One Hundred Thirty Five percent (135%) of his then Target Bonus for extraordinary performance on all or nearly all of his performance objectives (the "Annual Incentive Bonus"). Notwithstanding the foregoing, for the Company's fiscal year ending December 31, 2009, achievement of the Annual Incentive Bonus shall be on a pro-rata basis for the period following the Effective Date only.

Should Executive voluntarily terminate his employment after December 31 of any calendar year during the Term but prior to the date any bonus payments for such year are made by the Company, Executive shall remain eligible to receive his bonus payment to the extent earned when paid by the Company to all other Executives.

3.3. Equity Grant.

3.3.1. Option Grant. On the Effective Date, pursuant to a stock option agreement, Executive will be awarded an option to purchase two hundred thousand (200,000) shares of Avid Technology, Inc. common stock (the "Stock Option"). The exercise price will be the closing price of the stock on the Effective Date.

(i) Fifty Thousand (50,000) shares of the Stock Option will vest on a time-based schedule, twenty-five percent (25%) of which will vest on the first twelve-month anniversary of the Effective Date and the remaining seventy-five percent (75%) will vest in equal increments every three (3) months thereafter ending on the fourth

anniversary of the Effective Date, as long as Executive is employed by the Company on each such vesting date.

(ii) One HundredFifty Thousand (150,000) shares of the Stock Option will vest on a performance-based schedule, as follows, as long as Executive is employed by the Company on each such vesting date:

(a) Fifty Thousand (50,000) shares of the Stock Option will vest at the end of the first twenty (20) consecutive trading day period following the Effective Date during which the common stock of the Company, as quoted on NASDAQ (or on such other exchange as such shares may be traded), trades (without regard to the closing price) at a price per share of at least $35.00, as adjusted for stock splits and stock dividends; and

(b) An additional Fifty Thousand (50,000) shares of the Stock Option will vest at the end of the first twenty (20) consecutive trading day period following the Effective Date during which the common stock of the Company, as quoted on NASDAQ (or on such other exchange as such shares may be traded), trades (without regard to the closing price) at a price per share of at least $50.00, as adjusted for stock splits and stock dividends.

(c) Fifty Thousand (50,000) shares of the Stock Option (the “ROE Option Shares”) will vest in accordance with the following table (as long as Executive is employed by the Company on each such vesting date), based upon improvement in the Company’s Return on Equity, or ROE (as defined below), in calendar year periods, commencing with calendar year 2009. Improvements for each calendar year shall be measured against a baseline ROE for the 12-month period ended September 30, 2007 (“Baseline”).

| **ROE Percentage Point Improvement in Calendar Year Compared to Baseline** | **Percentage of ROE Option Shares to Vest** |
|---|---|
| **14%** | **100%** |
| **12%** | **90%** |
| **10%** | **75%** |
| **8%** | **60%** |
| **6%** | **45%** |
| **4%** | **30%** |
| **2%** | **15%** |
| **0%** | **0%** |

ROE determinations for each period will be made by the Board of Directors, or a duly authorized committee thereof, promptly following the date the Company files its annual report on Form 10-K with the Securities and Exchange Commission for that period and will be based upon the Company's audited financial statements for the applicable calendar year and the unaudited financial statements for the Baseline period. The ROE Option Shares, if any, that are not vested as of the date that the Board makes the final determination of ROE for the seventh calendar year (2015) shall be forfeited.

"Return on Equity" or "ROE" shall be determined using the Company's non-GAAP net income as published in an earnings release, adding the provision for income taxes and subtracting the non-GAAP related tax adjustments for the applicable period and dividing by the average common stockholder equity during the same period.

Notwithstanding the foregoing, the ROE Option Shares will vest in full at the end of the first twenty (20) consecutive trading day period following the Effective Date during which the common stock of the Company, as quoted on NASDAQ (or on such other exchange as such shares may be traded), trades (without regard to the closing price) at a price per share of at least $101.68, as adjusted for stock splits and stock dividends.

3.3.2. RSU Grant. Effective as of the Effective Date, pursuant to a restricted stock unit agreement, Executive will be granted Thirty Thousand (30,000) restricted stock units (the "Restricted Stock Unit Grant"), with each unit representing the right to receive one share of the Company's common stock, said restricted stock units to vest in equal twenty-five percent (25%) increments on each of the first four (4) anniversaries of the Effective Date, as long as Executive is employed by the Company on each such vesting date.

3.4. Benefits; Expenses. During the Term, the Company shall provide Executive and his dependents with medical insurance and such other cash and noncash benefits, on the same terms and conditions, as amended from time to time, as are generally made available by the Company to its full-time executive officers. Executive shall be entitled to four (4) weeks of paid vacation per year. The Company shall pay, or reimburse Executive for, all business expenses incurred by Executive which are related to the performance of Executive's duties, subject to timely submission by Executive of payment or reimbursement requests and appropriate documentation, in accordance with the Company's reimbursement policies.

3.5. Participation in Equity Incentive Plans. During the Term, in addition to the Stock Option and Restricted Stock Unit Grant, Executive shall be entitled to participate in the Company's stock incentive plans to the extent and in the manner determined by the Board of Directors in its absolute discretion.

## Article 4. Termination

4.1. Termination. Executive's employment hereunder shall terminate upon the occurrence of any

of the following events:

4.1.1. Immediately upon the Executive's death;

4.1.2. The termination of the Executive's employment by the Company for Disability (as defined below), to be effective immediately upon delivery of notice thereof;

4.1.3. The termination of Executive's employment by the Company for Cause (as defined below), to be effective immediately upon delivery of notice thereof;

4.1.4. The termination of Executive's employment by the Company without Cause and not as a result of Executive's death or Disability, to be effective thirty (30) days after the Company delivers written notice thereof to the Executive;

4.1.5. The termination of Executive's employment by Executive without Good Reason (as defined below), to be effective thirty (30) days after Executive delivers written notice thereof from Executive to the Company; or

4.1.6. The termination of Executive's employment by Executive with Good Reason (as defined below), to be effective as set forth below.

4.2. For purposes of this Agreement, the following definitions shall apply:

4.2.1. "Cause" shall mean (i) Executive's continued failure to perform (other than by reason of death or illness or other physical or mental incapacity) his duties and responsibilities as assigned by the Chief Executive Officer, Chief Administrative Officer or Board in accordance with Section 1.2 above, which is not remedied after thirty (30) days' written notice from the Company (if such failure is susceptible to cure), (ii) a breach by the Executive of this Agreement or any other material written agreement between Executive and the Company, which is not cured after ten (10) days' written notice from the Company (if such breach is susceptible to cure), (iii) Executive's gross negligence or willful misconduct, (iv) Executive's material violation of a material Company policy (for purposes of this clause, the Company's Code of Business Conduct and Ethics shall be deemed a material Company policy), which is not cured after ten (10) days' written notice from the Company (if such violation is susceptible to cure), (v) fraud, embezzlement or other material dishonesty with respect to the Company, (vi) conviction of a crime constituting a felony (which shall not include any crime or offense related to traffic infractions or as a result of vicarious liability) or conviction of any other crime involving fraud, dishonesty or moral turpitude or (vii) failing or refusing to cooperate, as reasonably requested in writing by the Company, in any internal or external investigation of any matter in which the Company has a material interest (financial or otherwise) in the outcome of the investigation.

4.2.2. "Change-in-Control of the Company" shall be deemed to have occurred only if any of the following events occur:

(i) The acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of

Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either (a) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (b) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this section, the following acquisitions shall not constitute a Change of Control: (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (D) any acquisition pursuant to a transaction which satisfies the criteria set forth in clauses (a) and (b) of Section 4.2.2(iii); or

(ii) Individuals who, as of the Effective Date, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the operating assets of the Company (a "Business Combination"), in each case, unless, following such Business Combination, (a) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 40% of, respectively, the then-outstanding shares of common stock (or other equity interests, in the case of an entity other than a corporation), and the combined voting power of the then-outstanding voting securities of the corporation or other entity resulting from such Business Combination (which as used in this section shall include, without limitation, a corporation or other entity which as a result of such transaction owns all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, and (b) no Person (excluding any corporation or other entity resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation

resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of, respectively, the then outstanding shares of common stock (or other equity interests, in the case of an entity other than a corporation) of the corporation or other entity resulting from such Business Combination, or the combined voting power of the then-outstanding voting securities of such corporation or other entity;

provided, however, that as used in Sections 2.1.2, 4.2.6, 4.3 and Article 5, a "Change-in-Control of the Company" shall be deemed to occur only if any of the foregoing events occur and such event that occurs is a "change in the ownership or effective control of a corporation, or a change in the ownership of a substantial portion of the assets of a corporation" as defined in Treasury Reg. § 1.409A-3(i)(5).

4.2.3. "Date of Termination" shall mean the date of Executive's "separation from service" with the Company, as determined under Treasury Reg. § 1.409A-1(h).

4.2.4. "Disability" shall mean Executive's absence from the full-time performance of his duties with the Company for more than one hundred and eighty (180) days during a three hundred and sixty-five (365) day period as a result of incapacity due to mental or physical illness, as a result of which Executive is deemed "disabled" by the institution appointed by the Company to administer its long-term disability plan (or any successor plan).

4.2.5. "Good Reason" shall mean any material breach of this Agreement by the Company or the occurrence of any one or more of the following without Executive's prior express written consent: (i) a material diminution in Executive's authority, duties or responsibility from those in effect as of the Effective Date; (ii) a material diminution in Executive's Base Salary as in effect on the Effective Date or as may be increased from time to time, other than a reduction which is part of an across-the board proportionate reduction in the salaries of all senior executives of the Company imposed because the Company is experiencing financial hardship (provided such reduction is not more than twenty percent (20%) and does not continue for more than twelve (12) months); and (iii) a material change in Executive's office location (it being agreed that as of the Effective Date such office location shall be deemed to be Tewksbury, Massachusetts); provided, however, that a termination for Good Reason by Executive can occur only if (a) Executive has given the Company a written notice of the existence of a condition giving rise to Good Reason within ninety (90) days after the initial occurrence of the condition giving rise to Good Reason and (b) the Company has not cured the condition giving rise to Good Reason within thirty (30) days after receipt of such notice. A termination for Good Reason shall occur thirty (30) days after the end of such thirty (30) day cure period.

4.2.6. A "Potential Change-in-Control Period" shall be deemed to exist (i) commencing upon the date on which the Company shall have announced that it has entered into a merger, acquisition or similar agreement, the consummation of which would result in the occurrence of a Change-in-Control of the Company and ending on the earlier of (a) the date on which the transaction governed by such agreement has been consummated or (b) the Company shall have announced that it has terminated such agreement, or (ii) commencing on the date on which any Person shall publicly announce an intention to take actions which if

consummated would constitute a Change-in-Control of the Company and ending on the earlier of (a) the date on which such actions have caused the consummation of a Change-in-Control of the Company or (b) such Person shall publicly announce the termination of its intentions to take such actions.

4.2.7. "Pro Ration Percentage" shall mean the amount, expressed as a percentage, equal to the number of days in the then current fiscal year through the Date of Termination, divided by three hundred and sixty-five (365).

4.2.8. "Termination Bonus Amount" shall mean the greater of (i) Executive's highest Annual Incentive Bonus earned in the two most recent full fiscal years preceding the Date of Termination, or (ii) One Hundred percent (100%) of Executive's Base Salary in effect as of the Date of Termination.

4.3. Adjustments Upon Termination.

4.3.1. Death or Disability. If during the Term, Executive's employment with the Company terminates pursuant to Section 4.1.1 or Section 4.1.2, subject to the general release requirement in Section 4.5, the Company shall pay to Executive or Executive's heirs, successors or legal representatives, as the case may be, Executive's Base Salary in effect as of the date Executive's employment with the Company terminates (less, in the case of a termination of employment as a result of Disability, the amount of any payments made to the Executive under any long-term disability plan of the Company). Such payments shall be made in accordance with Section 3.1 over the 12-month period that commences on the Date of Termination; provided that if termination of employment due to death or Disability occurs after a Change-in-Control of the Company, the total of such payments shall be made in a lump sum within thirty (30) days following the Date of Termination. Notwithstanding any provision to the contrary in any Company stock plan, or under the terms of any grant, award agreement or form for exercising any right under any such plan (including, without limitation, the agreements evidencing the Stock Option and the Restricted Stock Unit Grant), any stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights or other equity participation rights held by Executive as of the date of death or Disability shall become exercisable or vested, as the case may be, with respect to all time-based awards as to an additional number of shares equal to the number that would have been exercisable or vested as of the end of the twelve (12) month period immediately following the Date of Termination, but all performance-based vesting awards that have not vested as of such Date of Termination shall be forfeited as of such date.

4.3.2. With Cause or Without Good Reason. If Executive's employment with the Company terminates pursuant to Section 4.1.3 or Section 4.1.5, (i) all payments and benefits provided to Executive under this Agreement shall cease as of the Date of Termination, except that Executive shall be entitled to any amounts earned, accrued or owing but not yet paid under Section 3.1 and any benefits due in accordance with the terms of any applicable benefit plans and programs of the Company and (ii) all vesting of all stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights or other equity participation rights then held by the Executive shall immediately cease as of the date Executive's employment with the Company terminates.

4.3.3. Without Cause or with Good Reason Other than during a Potential Change-in-

Control Period or After a Change-in-Control of the Company. If Executive's employment with the Company terminates pursuant to Section 4.1.4 or Section 4.1.6, other than during a Potential Change-in-Control period or within twelve (12) months after a Change-in-Control of the Company, subject to the general release requirement in Section 4.5:

(i) Within thirty (30) days following the Date of Termination, the Company shall pay Executive in a lump sum in cash the sum of (a) any accrued but unpaid Base Salary through the Date of Termination plus (b) the Annual Incentive Bonus for the fiscal year preceding the fiscal year in which the Date of Termination occurs, if earned and unpaid, plus (c) any accrued but unused vacation pay;

(ii) The Company shall pay Executive, as severance pay, his Base Salary in effect as of the Date of Termination in accordance with Section 3.1 for twelve (12) months after the Date of Termination (the "Severance Pay Period");

(iii) The Company shall pay Executive the Annual Incentive Bonus for the year in which the Date of Termination occurred, in the amount of Executive's Target Bonus multiplied by the applicable actual plan payout factor and pro rated by the number of months Executive was employed by the Company during the year of the Date of Termination; provided, however, that any individual performance component of such payout factor shall be determined by the Compensation Committee of the Board of Directors or the Chief Executive Officer, as it or he deems appropriate under the circumstances in its or his sole discretion; and provided further, that such Annual Incentive Bonus will be paid only if the Company pays bonuses, on account of the year in which the Date of Termination occurred, to executives who remain employed with the Company and will be paid in a lump sum on or about the date on which the Company pays bonuses to executives who remain employed with the Company;

(iv) If Executive is eligible to receive and elects to continue receiving any group medical, dental and vision insurance coverage under COBRA, the Company shall reimburse the monthly COBRA premium in an amount equal to the portion of such premium that the Company pays on behalf of active and similarly situated employees receiving the same type of coverage until the earlier of (a) the end of the Severance Pay Period or (b) the date on which Executive becomes eligible to receive group medical, dental and vision insurance benefits from another employer that are substantially equivalent to those provided by the Company as of the Date of Termination (Executive agrees to notify the Company in writing promptly upon becoming eligible to receive such group medical, dental and vision insurance from another employer);

(v) The Company shall provide Executive, at the Company's sole cost, with executive

outplacement assistance in accordance with the Company's then-current executive outplacement program, provided that no outplacement benefits shall be provided after the end of the first calendar year following the calendar year in which the Date of Termination occurs;

(vi) Notwithstanding any provision to the contrary in any Company stock plan, or under the terms of any grant, award agreement or form for exercising any right under any such plan (including, without limitation, the agreements evidencing the Stock Option and the Restricted Stock Unit Grant), any stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights or other equity participation rights held by Executive as of the Date of Termination become exercisable or vested, as the case may be, with respect to all time-based vesting awards as to an additional number of shares equal to the number that would have been exercisable or vested as of the end of the twelve (12) month period immediately following the Date of Termination, but all performance-based vesting awards that have not vested as of the Date of Termination shall be forfeited as of such date exceptthat if the Date of Termination takes place after December 31 of a calendar year during the Term but prior to the computation of ROE with respect to such calendar year, a determination will be made as to the additional number of shares, if any, to be vested as a result of such ROE computation, prior to the forfeiture of the remaining unvested shares; and

(viii) Executive shall be entitled to exercise any such options or other awards or equity participation rights until the earlier of (a) 12 months after the Date of Termination and (b) the expiration date, if any, of such options, other awards or equity participation rights, but all performance-based vesting awards that have not vested as of the Date of Termination shall be forfeited as of such date. No other payments or benefits shall be due under this Agreement to Executive, but Executive shall be entitled to any benefits accrued or earned in accordance with the terms of any applicable benefit plans and programs of the Company.

4.3.4. Without Cause or with Good Reason After a Change-in-Control of the Company. If, within twelve (12) months after a Change-in-Control of the Company, Executive shall terminate Executive's employment pursuant to Section 4.1.6 or the Company shall terminate Executive's employment pursuant to Section 4.1.4, then in any such event, subject to the general release requirement in Section 4.5:

(i) The Company shall pay Executive as severance pay (without regard to the provisions of any benefit plan) in a lump sum in cash no more than thirty (30) days following the Date of Termination, the following amounts:

(a) the sum of (A) Executive's accrued but unpaid Base Salary through the Date of Termination, plus (B) the Annual Incentive Bonus for the fiscal year preceding the fiscal year in which the Date of Termination occurs, if

earned and unpaid, plus (C) the product of (1) Executive's Termination Bonus Amount, and (2) the Pro Ration Percentage, plus (D) any accrued but unused vacation pay; and

(b) the amount equal to one and a half (1.5) times the sum of (A) Executive's Base Salary in effect as of the Date of Termination, plus (B) Executive's Termination Bonus Amount.

(ii) If Executive is eligible to receive and elects to continue receiving any group medical, dental and vision insurance coverage under COBRA, the Company shall reimburse the monthly COBRA premium (on a fully grossed up basis, if such reimbursement is taxable to Executive) in an amount equal to the portion of such premium that the Company pays on behalf of active and similarly situated employees receiving the same type of coverage until the earlier of (a) the date that is eighteen (18) months after the Date of Termination or (b) the date on which Executive becomes eligible to receive group medical, dental and vision insurance benefits from another employer that are substantially equivalent (including, without limitation, equivalent as to benefits, premiums and co-pay amounts) to those provided by the Company as of the Date of Termination (Executive agrees to notify the Company in writing promptly upon becoming eligible to receive such group medical, dental and vision insurance from another employer);

(iii) Notwithstanding anything to the contrary in the applicable stock option or restricted stock unit agreement (including, without limitation, the agreements evidencing the Stock Option and the Restricted Stock Unit Grant), the exercisability of all outstanding stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights and other equity participation rights (including the right to receive restricted stock pursuant to the Restricted Stock Unit Grant or other instrument) then held by Executive with respect to the common stock of the Company (or securities exchanged for such common stock in connection with the Change-in-Control of the Company) shall accelerate in full and Executive shall be entitled to exercise any such options or other awards or equity appreciation rights until eighteen (18) months after the Date of Termination; and

(iv) The Company shall provide Executive, at the Company's sole cost, with executive outplacement assistance in accordance with the Company's then-current executive outplacement program, provided that no outplacement benefits shall be provided after the end of the second calendar year following the calendar year in which the Date of Termination occurs.

4.3.5. Without Cause or with Good Reason During a Potential Change-in-Control Period. If, during the existence of a Potential Change-in-Control Period, Executive shall terminate Executive's

employment pursuant to Section 4.1.6 or the Company shall terminate Executive's employment pursuant to Section 4.1.4, then in any such event, subject to the general release requirement in Section 4.5, Executive shall receive the payments, benefits and rights set forth in Sections 4.3.4, except that any amounts payable pursuant to Section 4.3.4(i)(b) shall be paid over the eighteen (18) month period that commences on the Date of Termination, if such date occurs more than thirty (30) days prior to the Change-in-Control of the Company that is the subject of the Potential Change-in-Control Period; otherwise, such amount shall be paid in a lump sum on the date that such Change-in-Control of the Company occurs. Notwithstanding the foregoing, if the Change-in-Control of the Company (that is the subject of the Potential Change-in-Control Period) occurs more than thirty (30) days after the Date of Termination, and payments of the amount payable pursuant to Section 4.3.4(i)(b) have begun over an 18-month period, pursuant to the preceding sentence, the balance of the amount payable pursuant to Section 4.3.4(i)(b) shall be paid to Executive in a lump sum on the date such Change-in-Control of the Company occurs.

4.4. Section 409A.

4.4.1. Payments to Executive under this Article 4 shall be bifurcated into two portions, consisting of a portion that does not constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code and a portion that does constitute nonqualified deferred compensation. Payments hereunder shall first be made from the portion, if any, that does not consist of nonqualified deferred compensation until it is exhausted and then shall be made from the portion that does constitute nonqualified deferred compensation. However, if Executive is a "specified employee" as defined in Section 409A(a)(2)(B)(i) of the Code, to the extent required by Section 409A of the Code, the commencement of the delivery of any such payments that constitute nonqualified deferred compensation will be delayed to the date that is six (6) months and one (1) day after Executive's Date of Termination (the "Earliest Payment Date"). Any payments that are delayed pursuant to the preceding sentence shall be paid on the Earliest Payment Date. The determination of whether, and the extent to which, any of the payments to be made to Executive hereunder are nonqualified deferred compensation shall be made after the application of all applicable exclusions under Treasury Reg. § 1.409A-1(b)(9). Any payments that are intended to qualify for the exclusion for separation pay due to involuntary separation from service set forth in Treasury Reg. § 1.409A-1(b)(9)(iii) must be paid no later than the last day of the second taxable year of Executive following the taxable year of Executive in which the Date of Termination occurs.

4.4.2. The parties acknowledge and agree that the interpretation of Section 409A of the Code and its application to the terms of this Agreement are uncertain and may be subject to change as additional guidance and interpretations become available. Anything to the contrary herein notwithstanding, all benefits or payments provided by the Company to Executive that would be deemed to constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code are intended to comply with Section 409A of the Code. If, however, any such benefit or payment is deemed to not comply with Section 409A of the Code, the Company and Executive agree to renegotiate in good faith any such benefit or payment (including, without limitation, as to the timing of any severance payments payable hereof) so that either (i) Section 409A of the Code will not apply or (ii) compliance with Section 409A of the Code will be achieved; provided, however, that any deferral of payments or other benefits shall be only for such time period as may be required to comply with

Section 409A; and provided, further, that payments or other benefits that occur as a result of the application of this section shall themselves comply with Section 409A of the Code.

4.5. General Release. In order to be eligible to receive any of the salary or benefits under Article 4 hereof, Executive (or his personal representative, if applicable) shall be required to execute and deliver to the Company (without subsequent revocation) a general release of claims against the Company, excluding any claims concerning the Company's obligations under this Agreement in a form provided by and reasonably satisfactory to the Company which shall contain a release of claims by Executive substantially in the form attached hereto as Exhibit A, and shall be required to sign such other agreements as executive employees of the Company are generally required to sign if Executive shall not have already done so, provided, however, that such other agreements do not cause any changes to the provisions herein or in any restricted stock, restricted stock unit, stock option or similar compensatory or benefit agreement between the Executive and the Company. The Company shall have no other liability or obligation under this Agreement to Executive's executors, legal representatives, administrators, heirs or assigns or any other person claiming under or through Executive.

## Article 5. Non-Competition and Non-Solicitation

5.1. Non-Competition and Non-Solicitation. Executive acknowledges the highly competitive nature of the businesses of the Company and accordingly agrees that while Executive is employed by the Company and for a period of the longer of (i) one year after the Date of Termination, in the case of a termination other than within 12 months after a Change-in-Control of the Company, and (ii) 18 months after the Date of Termination in the case of a termination within 12 months after a Change-in-Control of the Company:

5.1.1. Executive will not perform services for or own an interest in (except for investments of not more than five percent (5%) of the equity interest in a company or entity in which Executive does not actively participate in management) any firm, person or other entity that competes or plans to compete in any geographic area with the Company in the business of the development, manufacture, promotion, distribution or sale of digital film, video or audio production tools, including, but not limited to, editing, live sound, broadcast or newsroom products or automation systems, content-creation tools, media storage, computer graphics or on-air graphics, or other business or services in which the Company is engaged or plans (as evidenced by consideration by the Company's executive staff or by the Board) to engage at the time Executive's employment with the Company terminates.

5.1.2. Executive will not directly or indirectly assist others in engaging in any of the activities in which Executive is prohibited to engage by Section 5.1.1.

5.1.3. Executive will not directly or indirectly either alone or in association with others (i) solicit or employ, or permit any organization directly or indirectly controlled by Executive to solicit or employ, any person who was employed by the Company or was engaged as an independent contractor at any time within six months prior to such solicitation or employment, or (ii) solicit, hire or engage as an independent contractor, or permit any organization directly or indirectly controlled by Executive to solicit, hire or engage as an independent contractor, any person who was employed by the Company or was engaged as an independent

contractor at any time within six months prior to such solicitation, hiring or engagement or (iii) solicit, or permit any organization directly or indirectly controlled by Executive, to solicit any person who is an employee of the Company to leave the employ of the Company.

5.1.4. Executive will not directly or indirectly either alone or in association with others solicit, or permit any organization directly or indirectly controlled by Executive to solicit, any current or future customer or supplier of the Company to cease doing business in whole or in part with the Company or otherwise adversely modify his, her or its business relationship with the Company.

5.2. Reasonableness of Restrictions. It is expressly understood and agreed that (i) although Executive and the Company consider the restrictions contained in this Article 5 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that the time or territory or any other restriction contained in this Article 5 is unenforceable, such restriction shall not be rendered void but shall be deemed to be enforceable to such maximum extent as such court may determine or indicate to be enforceable and (ii) if any restriction contained in this Agreement is determined to be unenforceable and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any other restrictions contained herein.

5.3. Remedies for Breach. Executive acknowledges and agrees that the Company’s remedies at law for a breach or threatened breach of any of the provisions of this Article 5 would be inadequate and, in recognition of this fact, Executive agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to obtain equitable relief in the form of specific performance, temporary restraining orders, temporary or permanent injunctions or any other equitable remedy which may then be available. In addition, in the event of a breach of Article 5 which is not remedied after ten (10) days’ written notice from the Company (if such breach is susceptible to cure), whether or not Executive is employed by the Company, the Company shall cease to have any obligations to make payments to Executive under this Agreement (except for payments, if any, earned prior to such breach).

## Article 6. Assignment of Inventions and Non-Disclosure

6.1. Proprietary Information.

6.1.1. Executive agrees that all information and know-how, whether or not in writing, of a private, secret or confidential nature concerning (i) the Company's present or future business or financial affairs, (ii) the research and development or investigation activities of the Company, or (iii) the business relations and affairs of any client, customer or vendor of the Company, of which such information is not generally known to the public, industry or trade, and which the Company takes reasonable steps to safeguard and protect from disclosure (collectively, "Proprietary Information") is and shall be the exclusive property of the Company. By way of illustration, but not limitation, Proprietary Information includes trade secrets, inventions, products, processes, methods, techniques, formulas, compositions, compounds, projects, developments, plans, research data, clinical data, financial data, personnel data of other employees, computer programs and customer and supplier lists. Executive will not at any time, either during or after employment with the Company, disclose

any Proprietary Information to others outside the Company except as required in the performance of his duties for the Company (and under an appropriate confidentiality agreement), or as required by law, or use the same for any unauthorized purposes without prior written approval by the Company unless and until such Proprietary Information has become public knowledge without fault by Executive.

6.1.2. Executive agrees that all files, letters, memoranda, reports, records, data, sketches, drawings, laboratory notebooks, program listings, or other written, photographic, or other tangible material containing Proprietary Information, whether created by Executive or others, which shall come into his custody or possession, shall be and are the exclusive property of the Company to be used by Executive only in the performance of his duties for the Company. All such records or copies thereof and all tangible property of the Company in Executive’s custody or possession shall be delivered to the Company, upon the earlier of (i) a request by the Company or (ii) termination of Executive’s employment. After such delivery, Executive shall not retain any such records or copies thereof or any such tangible property.

6.1.3. Executive agrees that his obligation not to disclose or to use information, know-how and records of the types set forth in paragraphs 6.1.1 and 6.1.2 above, and his obligation to return records and tangible property, set forth in paragraph 6.1.2 above, also extend to such types of information, know-how, records and tangible property of clients and customers of the Company or vendors and suppliers to the Company or other third parties who may have disclosed or entrusted the same to the Company or to Executive in the course of the Company's business.

6.2. Innovations.

6.2.1. As used herein, the term “Innovation(s)” means any new or useful art, discovery, improvement, developments or inventions whether or not patentable, and all related know-how, designs, maskworks, trademarks, formulae, processes, manufacturing techniques, trade secrets, ideas, artwork, software or other copyrightable or patentable works, including all rights to obtain, register, perfect and enforce these proprietary interests. Executive shall make full and prompt disclosure to the Company of all Innovations whether patentable or not, which are created, made, conceived or reduced to practice by Executive or under Executive’s direction or jointly with others during his employment by the Company, whether or not during normal working hours or on the premises of the Company.

6.2.2. Executive agrees to assign and does hereby grant and assign to the Company (or any person or entity designated by the Company) all of Executive’s right, title and interest in and to all Innovations and all related patents, patent applications, copyrights and copyright applications, which Executive may solely or jointly conceive, develop or reduce to practice during the period of Executive’s employment with the Company. This paragraph 6.2.2 shall not apply to Innovations that do not relate to the present or planned business or research and development of the Company and which are made and conceived by Executive not during normal working hours, not on the Company's premises and not using the Company's tools, devices, equipment or Proprietary Information. Executive acknowledges that, to the extent this Agreement is construed in accordance with the laws of any state which precludes a requirement in an employee agreement to assign certain classes of inventions made by an employee, this paragraph 6.2.2 shall be interpreted not to apply to any invention that a court rules and/or the Company agrees falls within such classes.

6.2.3. Executive agrees to cooperate fully with the Company, both during and after his employment with the Company, with respect to the procurement, maintenance and enforcement of all intellectual property rights, including but not limited to copyrights and patents (both in the U.S. and foreign countries), relating to Innovations. Executive agrees to sign all papers, including, without limitation, copyright applications, patent applications, declarations, oaths, formal assignment of priority rights, and powers of attorney, which the Company may deem necessary or desirable in order to protect its rights, and interests in any Innovations assigned by Executive to the Company pursuant to paragraph 6.2.2 above or otherwise.

6.2.4. Prior to the Effective Date, Executive shall deliver to Company, and Company shall acknowledge receipt signed by an officer of the Company (a copy of which shall be returned to Executive) a list describing all inventions, original works of authorship, developments, improvements and trade secrets that were made by Executive prior to the Effective Date (collectively referred to as "Prior Inventions"), which belong to Executive, and which are not assigned to the Company hereunder. If no such list is delivered prior to the Effective Date, Executive represents that there are no such Prior Inventions. If in the course of his employment with the Company, Executive incorporates into a Company product, process or machine a Prior Invention owned by Executive or in which Executive has an interest, the Company is hereby granted and shall have a nonexclusive, royalty-free, irrevocable, perpetual, worldwide license to make, have made, modify, use and sell such Prior Invention as part of or in connection with such product, process or machine.

6.3. Other Agreements. Executive hereby represents that, except as he has disclosed in writing to the Company, he is not bound by the terms of any agreement with any previous employer or other party to refrain from using or discussing any trade secret or confidential or proprietary information in the course of his employment with the Company, or to refrain from competing, directly or indirectly, with the business of such previous employer or any other party. Executive represents that his performance of all the terms of this Agreement and as an employee of the Company does not and will not breach any agreement to keep in confidence proprietary information, knowledge or data acquired by Executive in confidence or in trust prior to his employment with the Company, and Executive shall not disclose to the Company or induce the Company to use any confidential or proprietary information or material belonging to any previous employer or others.

6.4. United States Government Obligations. Executive acknowledges that the Company from time to time may have agreements with other persons or with the United States government, or agencies thereof, which impose obligations or restrictions on the Company regarding inventions made during the course of work under such agreements or regarding the confidential nature of such work. Executive agrees to be bound by all such obligations and restrictions that are made known to him and to take all action necessary to discharge the obligations of the Company under such agreements.

## Article 7. Miscellaneous

7.1. Indemnification. Executive shall be entitled to indemnification as set forth in Article Eleventh of the Company’s Certificate of Incorporation, a copy of which has been provided to Executive. A directors’

and officers' liability insurance policy (or policies) shall be kept in place, during the Term of this Agreement and thereafter until at least the fourth anniversary of the date the Agreement is terminated for any reason, providing coverage to Executive that is no less favorable to him in any respect (including, without limitation, with respect to scope, exclusions, amounts and deductibles) than the coverage then being provided to any other present or former officer or director of the Company.

7.2. No Mitigation. The Company agrees that, except as specifically set forth in Section 4.3.3(iv) and Section 4.3.4(ii) regarding COBRA premium reimbursement, (i) if Executive's employment is terminated during the term of this agreement, Executive is not required to seek other employment or to attempt in any way to reduce any amounts payable to Executive by the Company and (ii) the amount of any payment provided hereunder shall not be reduced by any compensation earned by Executive.

7.3. Obligation of Successors. Any successor to substantially all of the Company's assets and business, whether by merger, consolidation, purchase of assets or otherwise, shall succeed to the rights and obligations of the Company hereunder. As used in this Agreement, "Company" shall mean the Company as defined above and any successor to substantially all of its assets and business or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

7.4. Notice. All notices required or permitted hereunder shall be in writing and deemed effectively given (i) when delivered in person, (ii) on the third business day after mailing by registered or certified mail, postage prepaid, (iii) on the next business day after delivery to an air courier for next day delivery, paid by the sender, or (iv) when sent by telecopy or facsimile transmission during normal business hours (9:00 a.m. to 5:00 p.m.) where the recipient is located (or if sent after such hours, as of commencement of the next business day), followed within twenty-four (24) hours by notification pursuant to any of the foregoing methods of delivery, in all cases addressed to the other party hereto as follows:

(a) If to the Company:

Avid Technology, Inc.
One Park West
Tewksbury, MA 01876
Attention: General Counsel
Facsimile: (978) 548-4639

(b) If to Executive:

Christopher C. Gahagan
2 Gable Ridge Road
Westborough, MA 01581

or at such other address or addresses as either party shall designate to the other in accordance with this section.

7.5. Survival. The respective rights and obligations of the parties under this Agreement shall

survive any termination of Executive's employment to the extent necessary to the intended preservation of such rights and obligations. Notwithstanding the termination of this Agreement or Executive's services hereunder for any reason, Article 5 shall survive any such termination.

7.6. Complete Agreement; Amendments. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes any and all prior agreements between the parties with respect to the subject matter hereof. This Agreement may not be modified or amended except upon written amendment approved by the Compensation Committee of the Board, and executed by a duly authorized officer of the Company and by Executive. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any time prior or subsequent time. Notwithstanding the foregoing, the Company may unilaterally modify or amend this Agreement if such modification or amendment is approved by the Compensation Committee of the Board and made to all other executive employment agreements entered into between the Company and its then-current executive officers.

7.7. Applicable Law. This Agreement shall be interpreted in accordance with the laws of the Commonwealth of Massachusetts (without reference to the conflicts of laws provisions thereof) and the parties hereby submit to the jurisdiction of the courts of that state.

7.8. Waiver of Jury Trial. Executive hereby irrevocably waives any right to a trial by jury in any action, suit, or other legal proceeding arising under or relating to any provision of this Agreement.

7.9. Severability. If any non-material provision of this Agreement shall be held invalid or unenforceable, it shall be deemed to be deleted or qualified so as to be enforceable or valid to the maximum extent permitted by law, and the remaining provisions shall continue in full force and effect.

7.10. Binding Effect. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators, legal representatives, successors, assigns and personal representatives, except that the duties, responsibilities and rights of Executive under this Agreement are of a personal nature and shall not be assignable or delegatable in whole or in part by Executive, except to the extent that the rights of Executive hereunder may be enforceable by his heirs, executors, administrators or legal representatives. If Executive should die while any amounts would still be payable to Executive hereunder if Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee or other designee or, if there be no such designee, to Executive's estate.

7.11. Captions. Captions of sections have been added only for convenience and shall not be deemed to be a part of this Agreement.

7.12. Withholding. The Company may withhold from any amounts payable under this Agreement such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

7.13. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one in the same instrument.

7.14. Non-Disparagement. Executive will not disparage the Company or any of its directors, officers, agents or employees or otherwise take any action which could reasonably be expected to adversely affect the reputation of the Company or the personal or professional reputation of any of the Company's directors, officers, agents or employees. Nothing in this paragraph will prevent Executive from disclosing any information to his attorneys or in response to a lawful subpoena or court order requiring disclosure of information.

7.15 Further Assurances. Each party agrees to furnish and execute additional forms and documents, and to take such further action, as shall be reasonable and customarily required in connection with the performance of this Agreement or the payment of benefits hereunder. In addition, following the termination of Executive's employment with the Company, Executive shall reasonably cooperate with the Company to effect a smooth transition with respect to any activities Executive engaged in on behalf of the Company, at the Company's behest, and otherwise in the conduct of Executive's activities as an employee of the Company, including, without limitation, providing the Company with (or directing the Company to the location of) business records and other information relating to the Company's business.

IN WITNESS WHEREOF, the undersigned have duly executed and delivered this Executive Employment Agreement as of the date first above written.

Avid Technology, Inc.

By: /s/ Kenneth A. Sexton
Name: Kenneth A. Sexton
Title: Executive Vice President, Chief Financial Officer and Chief Administrative Officer

/s/ Christopher C. Gahagan

**Exhibit A**

**Release provision pursuant to Section 4.5 of the Executive Employment Agreement**

In consideration of the payment of the severance benefits, which the Executive acknowledges he would not otherwise be entitled to receive, the Executive hereby fully, forever, irrevocably and unconditionally releases, remises and discharges the Company, its officers, directors, stockholders, corporate affiliates, subsidiaries, parent companies, agents and employees (each in their individual and corporate capacities, and collectively referred to hereinafter as the "Released Parties") from any and all claims, charges, complaints, demands, actions, causes of action, suits, rights, debts, sums of money, costs, accounts, reckonings, covenants, contracts, agreements, promises, doings, omissions, damages, executions, obligations, liabilities, penalties and expenses (including attorneys' fees and costs), of every kind and nature that the Executive ever had or now has against any or all of the Released Parties, whether existing or contingent, known or unknown, including but not limited to: any and all claims arising out of or relating to Executive's employment with and/or separation from any of the Released Parties or arising out of your relation in any capacity to any of the Released Parties; any and all claims under any Federal, state, or local constitution, law, or regulation; any and all wage and hour claims and claims for discrimination, harassment, or retaliation (including claims of age discrimination under the Age Discrimination in Employment Act, 29 U.S.C. §621 et seq. or any other law prohibiting age discrimination); any and all common law claims including, but not limited to, actions in defamation, intentional infliction of emotional distress, misrepresentation, fraud, wrongful discharge, and breach of contract; and any and all claims to any non-vested ownership interest in the Company, contractual or otherwise. This release is intended to be all encompassing and to act as a full and total release of all claims, whether specifically enumerated above or not, that Executive may have or have had against any or all of the Released Parties up to the date Executive signs this Agreement, but nothing in this Agreement prevents Executive from filing a charge with, cooperating with, or participating in any proceeding before the Equal Employment Opportunity Commission or a state fair employment practices agency (except that Executive acknowledges that he may not be able to recover any monetary benefits in connection with any such claim, charge or proceeding and provided further, however, that nothing herein is intended to be construed as releasing the Company from any obligation set forth in this Agreement.

The Executive acknowledges that he has been given at least twenty-one (21) days to consider this Agreement and that the Company advised him to consult with any attorney of his own choosing prior to signing this Agreement. The Executive further acknowledges that he may revoke this Agreement for a period of seven (7) days after the execution of this Agreement, and the Agreement shall not be effective or enforceable until the expiration of this seven (7) day revocation period. The Executive understands and agrees that by entering into this Agreement he is waiving any and all rights or claims he might have under the Age Discrimination in Employment Act, as amended by the Older Workers Benefit Protection Act, and that he has received consideration beyond that to which he was previously entitled.

**Exhibit 31.1**

**CERTIFICATION**

I, Gary G. Greenfield, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) 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

   d) 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 16, 2009

/s/ Gary G. Greenfield
Gary G. Greenfield
Chairman of the Board of Directors,
Chief Executive Officer and President
*(Principal Executive Officer)*

**Exhibit 31.2**

**CERTIFICATION**

I, Ken Sexton, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) 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

   d) 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 16, 2009

/s/ Ken Sexton
Ken Sexton
Executive Vice President, Chief Financial Officer
and Chief Administrative Officer
*(Principal Financial and Accounting Officer)*

**Exhibit 32.1**

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

In connection with the Quarterly Report on Form 10-Q of Avid Technology, Inc. (the “Company”) for the quarter ended September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Gary G. Greenfield, Chairman of the Board of Directors, Chief Executive Officer and President of the Company, and Ken Sexton, Executive Vice President, Chief Financial Officer and Chief Administrative 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.

Date: November 16, 2009

/s/ Gary G. Greenfield
Gary G. Greenfield
Chairman of the Board of Directors, Chief Executive Officer and President
*(Principal Executive Officer)*

Date: November 16, 2009

/s/ Ken Sexton
Ken Sexton
Executive Vice President, Chief Financial Officer and Chief Administrative Officer
*(Principal Financial and Accounting Officer)*