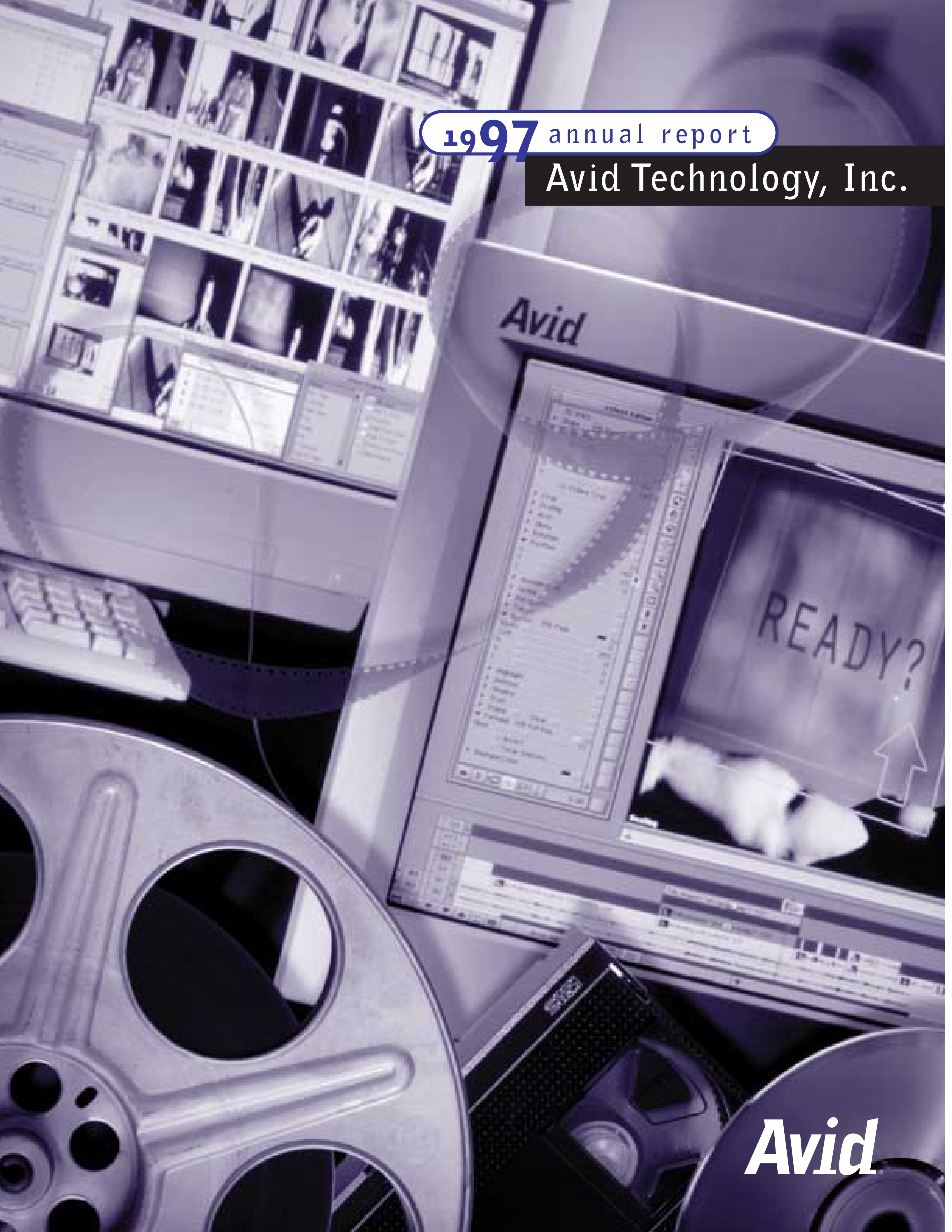
1997 annual report

Avid Technology, Inc.



Avid

mission

To provide the most powerful digital content creation tools to entertain and inform the world.

Avid's Executive Team, standing l to r:
Christine Mann, Director, Corporate Communications;
Judy Oppenheim, Sr. VP, H.R. + Corporate Services;
Dave Froker, Sr. VP + GM, Digidesign;
Jean Proulx, Sr. VP + GM, Professional Products;
David Olson, Sr. VP + GM, Digital News Prouction;
Cliff Jenks, Exec. VP + GM, Editing + Effects;
Bill Flaherty, Sr. VP, Finance + CFO;
Bill Miller, CEO + Chairman of the Board;
seated l to r: Ned Hazen, Sr. VP + GM, Office + Consumer Products;
Rose O'Donnell, Sr. VP, Technical Strategies.

accomplishments 1997

| Returned to profitability with record revenues and earnings.

| Generated significant cash from operations and continued to strengthen our balance sheet.

| Introduced several new products, which helped us maintain our leadership position in the industry and provided entry into new markets.

| Realigned our business to create a more market-focused organizational structure.

| Continued the shift in our sales model to emphasize the indirect sales channels.

| Entered into strategic alliances with both Intel and Matsushita to support our development plans.

| Celebrated a decade of leadership in the digital film and television industry.

goals

| Enhance shareholder value.

| Continue to grow our business. Expand our presence in existing markets by enhancing existing products and target new markets by introducing new innovative products.

| Satisfy customer needs by developing multi-platform products through internal development, joint development with third parties or acquisition.

| Continue our initiatives to enhance our competitiveness by providing products that are: multi-platform, work group and work flow oriented, open standard, and audio and effects integrated.

to our shareh

By any measure, Avid's performance in 1997 reflected a terrific effort by all of my colleagues at Avid around the world. Hundreds of people devoted enormous creativity and energy to the task of bringing Avid back to prosperity. As a result, we dramatically reduced inventories, receivables and product cost; we transformed our customer support operation and distribution channels; and we delivered an array of powerful new products such as Media Composer 7.0 and Pro Tools 24. These and a thousand other successes, large and small, combined to bring Avid back to health. The results reported here are a reflection of those efforts. My colleagues and I are proud of them.

In 1997, after a year of losses and a falling stock price, our efforts to turn around the company began to bear fruit. We returned to profitability in the first quarter and stayed there, finishing 1997 with record revenues and earnings. During the year, we generated $111.2 million in positive cash flow from operations and continued to strengthen our balance sheet. We stabilized and even increased our market share in each of our major markets. Our share price more than doubled during the year.

In a world in which media can be used for virtually any message and delivered across the air-waves, a cable or a computer network, we intend to continue to provide the tools that people use to tell their story.

—Bill Miller

Building on Success | Our improvements in 1997 were especially gratifying because they created the foundation on which we can build our future.

Avid's original success was primarily based on a series of innovative technologies and products that allowed us to replace tape-based, linear tools for media creation with computer-based, nonlinear ones. In the process, we have enabled our customers to create audio and video media more productively and with greater creative flexibility than would have been possible with older technology. As a result, Avid became the leading provider of nonlinear editing tools for film, television programming and commercials, and, through Digidesign, audio media of all types. Today, a substantial majority of the major movies, television programs and commercials produced in the US and Europe are edited on Avid systems.

As dramatic as that success has been, the technology shift of replacing tape with nonlinear systems is not nearly complete. During the next several years, we intend to grow our company by continuing to introduce nonlinear technology into parts of the media creation process where tape still predominates. We have identified four major targets of opportunity.

| Television programs and commercials, after being edited on Avid systems, are still, for the most part, finished on linear systems. New products and features together with better integration of our editing, effects and audio technologies will enable us to attack this market.

| Broadcast news editing and video production represents another opportunity. Avid has pioneered the use of computer-based tools for broadcast news, and we are operating successfully today in a number of major broadcast stations around the world, but the transition to nonlinear systems is still in its infancy.

| Corporations, the post-production houses that specialize in serving them, as well as government and education are significant market opportunities that are only about 35% penetrated today. Products that we first introduced in 1996 achieved great success in 1997 and have provided us a leading position in this market, but there is still a lot more to do.

olders

Through Digidesign, we are the leading provider of digital audio workstations that are today primarily used for editing and effects. The recent product introductions by Digidesign have put Avid in a position to take advantage of more parts of the audio production process.

In addition to these new market extensions, recent developments in our traditional media markets continue to enlarge the opportunities for our technologies. The number of media outlets continues to increase dramatically, creating a greater need for programming and commercials. HDTV (high definition television) will give us an opportunity to augment our current products as well as develop new solutions to satisfy broadcast requirements. Web-based media, however it develops, will create a whole new group of outlets for media.

Preparing for the Future | We intend to continue to mine the rich lode of opportunity that is based on Avid's original premise that digital nonlinear tools can be the basis for virtually all media creation activities. At the same time, we are beginning to prepare for another large opportunity that arises from a slightly different premise. That premise is that in the future, the number of people who will use media to communicate will increase dramatically. We are convinced that inexpensive, high quality cameras, affordable media servers, bigger networks, streaming video standards, and a host of other technologies will enable the routine use of audio and video in applications where they are rarely or never used today. The possibilities are endless, from presentation video to corporate communications and training, to personal communication and entertainment.

In a world in which media can be used for virtually any message and delivered across the airwaves, a cable or a computer network, we intend to continue to provide the tools that people use to tell their story. We are preparing for that opportunity by developing non-professional products with remarkably intuitive interfaces and working with others to encourage the development of standards and infrastructure that will make it easy for non-professionals to use media.

Each new use of media, however it is delivered, is an opportunity for us, and our progress in 1997 is an indication that we have the skills necessary to take advantage of those possibilities. My co-workers at Avid are a remarkably talented and committed group of people. Our channel partners are the best in the business. Most importantly, our customers are not only the best media creators in the world, they have been incredibly generous with time and advice to keep improving the partnership that is at the heart of Avid's success. It is a terrific team and I know that all of us look forward to the future.

William J. Miller
Chairman of the Board, President and
Chief Executive Officer

March 1998

financial highlights

Statements of Operations Highlights

$ in thousands (except per share data)

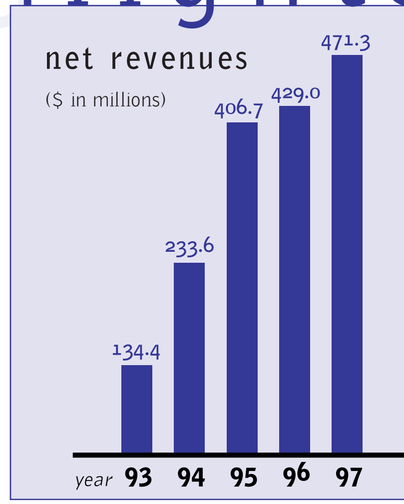
year ended December 31,	1997	1996	1995	1994	1993
Net revenues	$471,338	$429,009	$406,650	$233,633	$134,366
Gross margin	53.0%	44.3%	51.1%	53.7%	54.6%
Operating income (loss)	30,113	(59,363)*	22,647*	23,412	6,520*
As a percent of revenues	6.4%	(13.8%)	5.6%	10.0%	4.9%
Earnings per share-diluted	$1.08	$(1.80)	$0.77	$0.99	$0.40

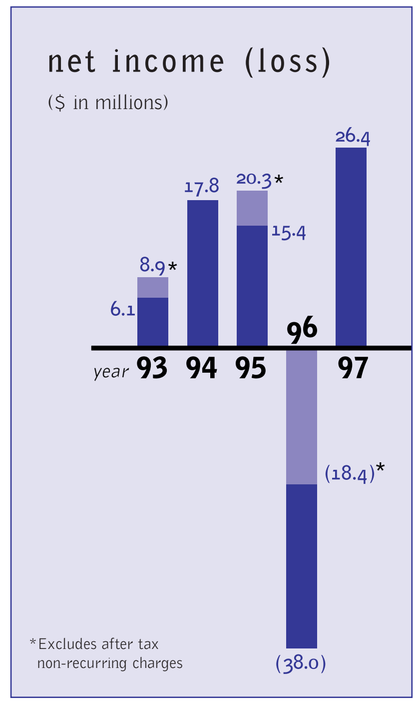
*In 1996, 1995 and 1993 the Company incurred non-recurring charges of $29.0 million, $5.5 million and $3.8 million, respectively. The 1996 charges related principally to restructuring, product transition costs and the Company's decision not to release a product line. The 1995 and 1993 charges related to merger costs and the purchase of incomplete technology, respectively.

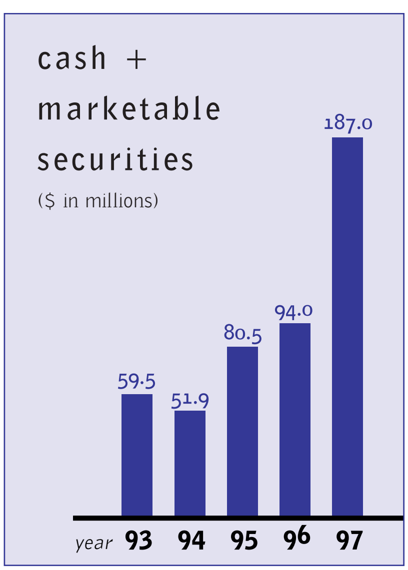
Balance Sheet Highlights

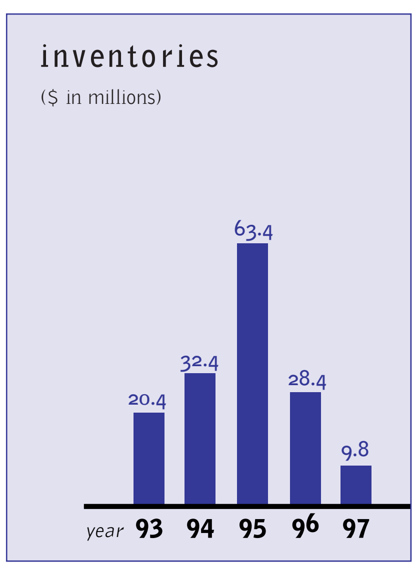
$ in thousands
(except per share data and employees)

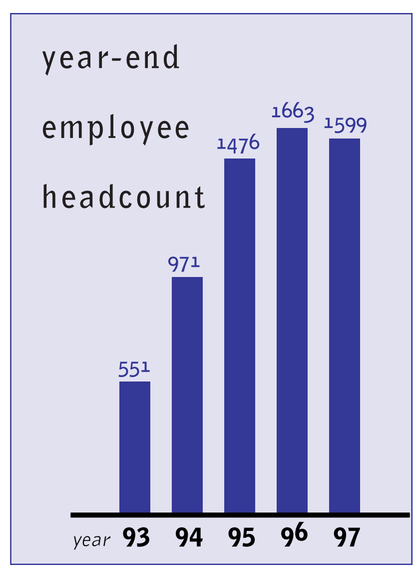
year ended December 31,	1997	1996	1995	1994	1993
Cash + marketable securities	$186,962	$94,040	$80,492	$51,891	$59,550
Accounts receivable, net	79,773	86,187	107,859	54,805	28,474
Inventories	9,842	28,359	63,387	32,401	20,445
Working capital	186,474	145,320	162,260	86,513	91,473
Total assets	356,805	300,979	331,604	182,174	132,355
Total stockholders' equity	241,794	213,415	247,966	127,887	106,732
Book value per share	$10.42	$10.00	$11.84	$7.73	$6.69
Employees at year end	1,599	1,663	1,476	971	551











Avid continues to push the limits of technological possibilities. We're proud to be setting the standard with award-winning digital editing solutions for film, video, audio and creating graphics + effects.

Innovation has defined our past, is our present, and will be our future...

As we've grown, we've never lost sight of our goal—to give our customers worldwide the most innovative tools for storytelling.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the fiscal year ended December 31, 1997

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

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.)

Metropolitan Technology Park, One Park West, Tewksbury, MA	**01876**
(Address of principal executive offices)	(Zip Code)

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

Securities Registered Pursuant to Section 12(b) of The Act:

None

Securities Registered Pursuant to Section 12(g) of The Act:

Common Stock $.01 Par Value
(Title of Class)

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 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 √ NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $858,533,865 based on the closing price of the Common Stock on the NASDAQ National Market on March 18, 1998.

The number of shares outstanding of the registrant's Common Stock as of March 18, 1998, was 23,269,527.

Documents Incorporated by Reference

Document Description	10-K Part
Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held May 19, 1998................................	III

PART I

ITEM 1. BUSINESS

Avid develops, markets, sells and supports a wide range of disk-based systems for creating and manipulating digital media content. Avid's digital, nonlinear video and film editing systems are designed to improve the productivity of video and film editors by enabling them to edit moving pictures and sound in a faster, easier, more creative, and more cost-effective manner than traditional analog tape-based systems. Avid also develops and sells digital editing systems and newsroom computer systems for creating content in the digital news production market for delivering news content to air. Avid also develops and sells digital audio systems for the professional audio market. Avid's products are used worldwide in production and post-production facilities; film studios; network, affiliate, independent, and cable television stations; recording studios; advertising agencies; government and educational institutions; and corporate video departments.

In January 1995, Avid effected a merger with Digidesign, Inc. ("Digidesign"). Digidesign is a leading provider of computer-based, digital audio production systems for the professional music, film, broadcast, multimedia, and home recording markets. In March 1995, Avid acquired through merger Elastic Reality, Inc. ("Elastic Reality"), and Parallax Software Limited and 3 Space Software Limited (together "Parallax Software"). Elastic Reality and Parallax Software now form Avid's graphics and effects group. This group develops a range of image manipulation products that allow users in the video and film post-production and broadcast markets to create graphics and special effects for use in feature films, television programs and advertising, and news programs.

The text of this document may include forward-looking statements. Actual results may differ materially from those described herein, depending on such factors as are described herein, including under "Certain Factors That May Affect Future Results."

Digital Media Content Markets

Digital media are media elements, whether video or audio or graphics, in which the image, sound or picture is recorded and stored as digital values, as opposed to analog signals. For example, a letter prepared on a computer using word processing software is the digital media representation of a typewritten letter. The word-processed letter example also illustrates some of the characteristics of digital media, such as flexible editing, the ability to create different versions, simple production of multiple identical copies, and easy integration with other digital media types, such as charts and graphics. These characteristics generally provide digital formats with advantages over their analog equivalents. However, creating and manipulating digital content typically requires new digital content creation tools; for example, the typewriter has given way to dedicated word processors and, more recently, to desktop computers running word processing software.

Digital formats and tools have largely displaced analog formats and tools in many markets, such as word processing, electronic spreadsheets, desktop publishing, graphics, and electronic and mechanical design. Because of more challenging technical and cost hurdles in handling digital forms of film, video and audio signals, markets that rely on these media types have begun to migrate to digital formats and tools only in recent years.

As technical advances in digital media content creation tools have made this migration possible, users have become able to create more complex content that may incorporate several elements of digital media. For example, many video games now include live action video, detailed 3D graphics, and high quality audio, all created, manipulated, and played back in digital form. Feature films, such as Titanic or Jurassic Park, integrate sophisticated computer-generated special effects into traditional live action shots.

The Company participates currently in three principal end-user markets in which there are well-established analog, or tape-based, content creation processes and which are transitioning to digital, or disk-based, content creation tools. These three markets are (i) video and film editing and effects; (ii) digital news production; and (iii) professional audio.

Avid's video and film editing and effects market consists of professional users and users in the corporate office, government, education, and consumer markets. Professional users produce video and film material, such as feature films, commercial spots, entertainment and documentary programming, industrial videos, and music videos. These users are typically employed in independent production or post-production companies, which are firms that rent out production and post-production equipment and professionals on a project basis. Professional users are also found in television facilities, film studios, and certain large corporations that perform digital media production and post production in-house. Users in corporations and various other institutions use digital media content tools to distribute information enriched by the addition of digital media content to their customers and employees. Educational users and home consumers use content creation tools to enrich school and home presentations. Avid's digital news production market is comprised of over-the-air and cable broadcast companies that originate news programming. This market includes national and international broadcasters, such as the British Broadcasting Corporation (BBC), the Cable News Network (CNN), and the National Broadcasting Company (NBC), as well as network affiliates, local independent television stations, and local and regional cable operators who produce news programming.

Avid's professional audio market is comprised of professional music recording studios, project studios, radio broadcasters, and home studios. Music recording and project studios operate in the same manner as the independent video and film production and post production firms, as described above. This market also includes audio production and post-production in video and film.

Strategy

Avid's mission is to be the leading provider of powerful digital content creation tools used to entertain and inform the world. The Company's strategy consists of four key elements:

Maintain Existing Markets:
The Company continues to focus its activities on markets where digital media content creation takes place. The Company has addressed its initial efforts to the professional video and film editing markets, including film and television studios and independent production and post-production firms. The Company extended its target markets to the music and audio production and post-production markets, through the acquisition of Digidesign in 1995, and the broadcast news production market, through the introduction of Avid-developed digital news editing solutions and through the acquisition in 1994 of SofTECH and the newsroom systems division of Basys Automation Systems, Inc. ("Basys"), both of which offered broadcast newsroom computer systems. In March 1995, Avid expanded its position in the feature film and video production and post-production markets through the acquisitions of Elastic Reality and Parallax Software, developers of special effects software.

Expand Presence in Existing Markets:
The Company believes that it has established unit and revenue market share leadership positions in the professional video and film digital editing markets, the digital audio market, and the markets for digital news editing and broadcast newsroom computer systems. The Company plans to strengthen these positions by enhancing its existing products, by developing and introducing new products that satisfy a broader range of customer needs in these markets, through internal development, joint development with third parties or acquisition, and by providing excellent customer service, support, and training.

Target New Markets:
The Company believes that many business communications needs, including employee and customer training, new product introduction, and management communications, can be enriched by integrating digital media elements, including video and audio. As a result, the Company intends to target users in corporations, educational and government institutions, and small businesses who, if offered digital media content creation tools appropriate to their skill levels, price constraints, and other business requirements, could use digital media presentations in their daily operations to improve the power and scope of their business communications.

The company believes that it is the market leader in off-line editing for television and that expansion opportunity exists in television online editing, which is the final piece of the post-production process that today is still mainly tape-based. The Company believes that because digital solutions address the needs of this editing process, tape will be replaced by digital solutions.

Drive and Support Open Industry Standards:
The Company designs its products so that they are based on and can co-exist with major industry-wide standards, including computer platforms, operating systems, networking protocols, data compression, and digital media handling formats. In addition, in response to growing customer demand for open standards that enable the seamless integration of analog and digital media tools from different vendors, the Company has undertaken an initiative to

establish the Open Media Framework Interchange ("OMFI'') as an industry standard media file interchange format to facilitate the transfer of various media types, such as video, audio, animation, film, and graphics, among various systems and applications used in the media production processes. The Company has published the OMFI file format and is seeking to promulgate it as an industry standard. Hundreds of vendors and end users endorse the OMFI standard and more than 40 vendors are supporting the OMFI standard in their products.

Products

The following lists the Company's products within the three principal markets in which they are sold. A description follows of the major products and product families in each of these categories.

Video and Film Editing and Effects

Media Composer:
The Media Composer system is Avid's original product offering and still accounts for a significant portion of its revenues. The Company believes that the Media Composer product line holds a greater unit market share than any other digital non-linear editing system in professional video editing markets. The Media Composer product line now includes four models (the Media Composer Off-line, 1000, 9000 and Media Station), which provide various levels of capability and functionality. The Media Composer is a disk-based digital, nonlinear editing system designed primarily for use by professional film and video editors. The Media Composer system converts visual and audio source material on tape to a digital format and stores the converted material on a range of hard disk storage devices. Once digitized, the stored media can be previewed, edited, and played back. The Media Composer family of products is used to create high-quality productions such as television shows and commercials, feature films, music videos, corporate videos, and other non-broadcast finished videos.

Film Composer:
The Film Composer system is a 24 frames per second ("fps") editing system for projects that originate and finish on film. Film footage can be converted to video signals for editing, but because video runs at 30 fps and film at 24 fps, a standard 30 fps video editing system will not yield an accurate 24 fps film cut list from which to cut a master. The Film Composer includes software that determines which frames on the videotape are actual frames from the film source material and allows the creation of a frame accurate cut list. The Film Composer software also includes special features to meet the specific needs of film editors. The Company believes that Film Composer holds a greater unit market share than any other digital non-linear editing system in professional film editing markets.

Avid Xpress for Macintosh:
Avid Xpress for Macintosh (formerly known as MCXpress for Macintosh) is a digital, nonlinear video editing system designed to meet the needs of professional media entrepreneurs involved with video and multimedia production for a variety of distribution mediums including videotape, CD-ROM and the Internet. Avid Xpress for Macintosh has a streamlined user interface and editing model targeted for this category of user. This attribute allows existing Media Composer users to easily migrate to Avid Xpress systems and provides media and project interchange between the products.

MCXpress for Windows NT:
MCXpress for Windows NT is a digital, nonlinear video editing system designed for the same market as Avid Xpress for Macintosh, but is targeted to users who prefer Windows NT-based computers. MCXpress for Windows NT offers professional picture quality and editing features, support for multiple media delivery options, AVI output, integration with third-party Windows applications, a built-in titling tool, and a plug-in effects architecture.

Avid Cinema:
Avid Cinema is a desktop editing product designed for people who have had no previous video editing experience. Avid Cinema is targeted at users in home, school, and corporate environments. A simple interface guides users through the process of making their own, near-VHS-quality movies to save to videotape, put in a slide presentation, or post on a web page. These movies can include video, transition effects, narration, titles and music. Avid Cinema currently employs Apple's QuickTime technology and allows users to save QuickTime files for various distribution formats.

Media Illusion:
Media Illusion is Avid's digital compositing, layering and special effects software solution running on Silicon Graphics computers. It provides comprehensive nonlinear compositing based on an intuitive, interactive process tree, that enables powerful and efficient effects creation. Media Illusion is used by professionals in both video and film post-production.

Matador:
Matador is a two-dimensional ("2D") post-production paint software solution. Matador provides the user with painting, image treatment, rotoscoping, tracking, and multi-layered 2D animation in a single, resolution independent system. The Company believes that Matador holds a greater unit market share than any other paint software in professional film and video special effects markets.

Elastic Reality:
Elastic Reality is a software solution that provides tools for performing 2D and 3D hierarchical animation, character animation, warping and morphing of shapes and images, color correction and matte making, and compositing. Elastic Reality is based on Avid's proprietary "shape-to-shape" morphing interface. The Company believes that Elastic Reality holds a greater unit market share than any other morphing and warping software in professional film and video special effects markets.

Storage Systems :
Avid offers a family of media storage solutions for use with its systems. Storage systems are used to add media editing or playback capacity, improve image quality, support workgroup media sharing, and protect media from loss due to hardware failure. Avid purchases disk, tape and optical drives, and storage enclosure sub-systems from third-party manufacturers, integrates them, enhances their performance, tests and certifies them for use with Avid systems, and packages them in various configurations. These storage systems range in capacity from nine gigabytes to well over one terabyte (1,000 gigabytes).

Digital News Production

NewsCutter:
NewsCutter is a disk-based digital, nonlinear video editing system designed to meet the demands of television news production. NewsCutter enables broadcast news editors to edit news, features, and news series. The user interface for NewsCutter has been designed for fast, easy editing to meet the time-critical demands of daily news deadlines. Based on the same core technology as the Media Composer system, the NewsCutter system offers a range of editing and effects features, including dissolves, wipes and graphics, and character generation. NewsCutter can operate as a standalone editing system or as a client sharing a central library of audio and video media on a server.

AirPlay MP:
AirPlay MP is a disk-based random access insertion and playback system that provides television broadcasters and cable operators with the ability to transmit high-quality short form video to air directly from disk, including short form news, promos, station IDs, and commercials. Television news programs typically have numerous short form segments, many of which have been pre-recorded and edited. Operators traditionally have had to manage multiple tape decks to play back such segments in the desired sequence during the program. For news applications, AirPlay MP is designed to reduce on-air errors by simplifying the process of inserting the correct story at the correct time. For commercial playback, AirPlay MP is used to air spots automatically in the slots sold to advertisers. Because of the random access capability of AirPlay MP, spot placements can be changed quickly and easily. AirPlay MP shares media compatibility with both NewsCutter and Media Composer so that news stories prepared on NewsCutter and commercial and promotional spots prepared on Media Composer can be played back on AirPlay without resorting to tape.

Avid MediaServer:
The Avid MediaServer is a workgroup video production server that provides simultaneous access to a central computer-based library of video and audio media files. Based on the Silicon Graphics family of servers, Avid MediaServer supports multiple editing and/or playback workstations. The Avid MediaServer system is designed to allow television broadcasters to capture electronic news feeds, edit stories, and play them to air all in a computer-based environment.

AvidNews:
Avid entered the newsroom computer systems (“NRCS”) market through the acquisition in 1994 of the newsroom division of Basys and of SofTECH Systems, both of which developed and sold NRCS products. These products have now been consolidated into a single offering, AvidNews. Newsroom computer systems are the management information systems for television newsrooms. AvidNews provides a computer based process of news production: story assignment and resource scheduling, story research, story creation and collaboration. Journalists use the system to access wire stories, schedule, script, edit text portions of stories, and send and receive mail and messages. Producers use the system to assign journalists and crews to stories and to review work-in-progress.

Professional Audio

Pro Tools:
Pro Tools is a multi-track random access digital audio workstation developed by Digidesign for the professional music, audio post-production, and radio production markets. Pro Tools features include audio recording, advanced waveform editing, mixing, signal processing, and automation. Pro Tools is an open architecture in which more than 100 Digidesign Development Partners provide additional solutions that expand the functionality of Digidesign’s systems, enhancing their appeal to customers. Pro Tools software is compatible across a range of Digidesign hardware platforms, from high-end Pro Tools 24 down through Pro-Tools III and Audiomedia III. Pro Tools PowerMix software runs without Digidesign hardware on Power-PC Macintosh computers using host audio capabilities. The Company believes that Pro Tools holds a greater unit market share than any other digital audio workstation product in professional audio markets.

AudioVision:
AudioVision is a high performance digital audio workstation designed specifically to meet the needs of the audio post-production professional working with film and video. AudioVision is compatible with projects originating on Avid’s Media Composer and Film Composer systems. Typical applications include sound editing for feature film and television programming, ADR (automatic dialogue replacement), and commercial spot production. AudioVision allows the user to record, edit and process sound in sync with Avid-format digital video. AudioVision includes project management and database tools, integrated DSP and the ability to edit audio and video together. The system offers a high level of interchange with other Avid systems, including Pro Tools.

Sales and Service

Avid sells its products through a combination of indirect and direct sales channels. Since late 1996, the Company has increasingly emphasized its indirect channel, including independent distributors, value-added re-sellers (“VARs”) and dealers, as the primary means of distribution, providing for broader market coverage and clearer delineation from Avid’s direct sales channel and direct sales management. Avid’s direct sales organization currently focuses on approximately 115 strategic accounts which are large volume purchasers, which require significant pre-sales and post-sales customer services and which have the potential to work with Avid in developing new product or market opportunities.

As a result of the shifting of emphasis to the indirect sales channel, the Company has increased its support of top customers while the proportion of revenues generated through its indirect channels has been increased.

The Company maintains sales offices in 32 cities in 16 countries and has relationships with more than 500 distributors, VARs and dealers throughout the world.

Pro Tools 24 and other Digidesign-developed products are sold generally through dealers and distributors. Because this channel tends to focus on music-related products, there is, currently, little overlap between this channel and Avid’s video, film and broadcast market sales channels.

Avid currently provides direct customer support through regional telephone support centers and field service representatives in major markets. Support offerings include up to 24-hour, seven day per week options for both telephone support and on-site representation, hardware replacement and software upgrades. In addition, customer support is provided by VARs and distributors.

Customer training is provided directly by Avid and through a network of 45 authorized third-party Avid training centers in 14 countries.

Manufacturing and Suppliers

Avid's manufacturing operations consist primarily of the testing of subassemblies and components purchased from third parties, the duplication of software and the configuration, assembly and testing of board sets, software, related hardware components, and complete systems. Avid relies on independent contractors to manufacture components and subassemblies to Avid's specifications. Avid's systems undergo testing and quality assurance at the final assembly stage.

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

Avid has manufacturing facilities in Tewksbury, Massachusetts; Dublin, Ireland; and Palo Alto and Menlo Park, California.

Research and Development

Avid's research and development efforts currently are focused on 1) the development or enhancement of digital media content creation tools that operate on Windows-based computers, Apple computers, and Unix-based computers; 2) the development of hardware and software enhancements and additions to its existing video, film and audio editing systems, and digital news gathering and newsroom computer systems that lower Avid's costs; 3) the development of hardware and software enhancements and additions to its existing video, film and audio editing systems, and digital news gathering and newsroom computer systems to meet additional needs of the professional production, post-production, and broadcast news markets; 4) the development of AvidNews, a next generation newsroom computer system intended to integrate standard text-based newsroom computer system functionality with nonlinear video and audio functionality; 5) the development of DV-native editing and playback solutions for the broadcast news markets; and 6) the development of new media storage solutions. The Company undertakes research and development activities in Tewksbury, Massachusetts, Palo Alto, California, and London, England.

Competition

The markets for Avid's products are highly competitive and subject to rapid change. Competition is fragmented with a large number of suppliers providing different types of products to different markets.

In the video and film production and post-production markets, Avid encounters competition primarily from vendors that offer similar digital editing products based on standard computer platforms, including Discreet Logic and its subsidiary, D/VISION, Fast America, ImMix (a subsidiary of Scitex America), Lightworks USA (a subsidiary of Tektronix), Media 100 (formerly known as Data Translation, Inc.), Quantel (a subsidiary of Carlton Communications PLC), Softimage (a subsidiary of Microsoft) and Panasonic (a subsidiary of Matsushita). Avid also competes with vendors, such as Sony, Matsushita and Tektronix, that generally have offered analog-based products. Avid expects that competition from these vendors will increase to the extent that such vendors develop and introduce digital media products, as well as new versions of their analog products.

In the broadcast news market, Avid competes primarily with vendors such as Sony, Panasonic, Tektronix (including primarily its subsidiaries Lightworks USA, The Grass Valley Group and NewStar), Quantel, Associated Press, and BTS (a subsidiary of Philips). Avid expects that competition from these vendors will increase to the extent such vendors continue to develop and introduce digital or new analog-based products. The Company also competes in certain segments of this market with other providers of digital media products, including Media 100 and ImMix.

In the music production and post-production markets, the Company competes primarily with traditional analog tape-based system suppliers, including AMS, Fritz Studer, Otari, Sony, Tascam, and Yamaha; digital tape-based system suppliers, including Alesis, Tascam, and other disk-based digital audio production system suppliers, including Sonic Solutions, Soundscape, Sadie, Yamaha, Fairlight, and Ensoniq. In addition, companies such as Creative Technology currently provide low cost (under $500) digital audio playback cards targeted primarily at the personal computer game market. There can be no assurance that these companies will not introduce products that are more directly competitive with the Company's products.

In the market for graphics and special effects products, Avid competes primarily with Adobe, Alias Research (a subsidiary of Silicon Graphics), Chyron, Discreet Logic, Quantel, and Softimage.

The Company may face competition in any or all of these markets in the future from computer manufacturers, such as Digital Equipment, Hewlett-Packard, IBM, and Silicon Graphics, as well as from software vendors, such as Microsoft, Oracle, and Sybase. All of these companies have announced their intentions to enter some or all of the Company's target markets, including specifically the broadcast news and special effects market. In addition, certain developers of shrink-wrapped digital media software products, such as Adobe and Macromedia, either offer or have announced video and audio editing products which may compete with certain of the Company's products.

The primary competitive factors in all of the Company's markets are price/performance, functionality, product quality, reputation, product line breadth, access to distribution channels, customer service and support, brand name awareness, and ease of use.

Employees

The Company employed 1,599 people as of December 31, 1997.

ITEM 2. PROPERTIES

The Company's principal administrative, sales and marketing, research and development, support, and manufacturing facilities are located in three buildings adjacent to one another in an office park located in Tewksbury, Massachusetts. The Company's leases on such buildings expire in June 2010.

The Company also leases a facility in Dublin, Ireland for the manufacture and distribution of its products and in Palo Alto, California, which houses Digidesign headquarters and certain other research and development operations.

In September 1995, the Company's United Kingdom subsidiary entered into a 15-year lease in London, England.

The Company also maintains sales and marketing support offices in leased facilities in various other locations throughout the world.

See Note K - "Commitment and Contingencies" in the Notes to Consolidated Financial Statements for information concerning the Company's obligations under all operating leases as of December 31, 1997.

In addition, the Company anticipates no difficulty in retaining occupancy of any of its manufacturing, office or sales and marketing support facilities through lease renewals prior to expiration or through month-to-month occupancy, or in replacing them with equivalent facilities.

ITEM 3. LEGAL PROCEEDINGS

Data Translation, Inc.

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

Class Action Shareholder Litigation

In December 1995, six purported shareholder class action complaints were filed in the United States District Court for the District of Massachusetts naming the Company and certain of its underwriters and past and present officers and directors as defendants. On July 31, 1996, the six actions were consolidated into two lawsuits: one brought under the 1934 Securities Exchange Act (the "'34 Act suit") and one under the 1933 Securities Act (the "'33 Act suit"). Principal allegations contained in the two complaints include claims that the defendants violated federal securities laws and state common law by allegedly making false and misleading statements and by allegedly failing to disclose material information that was required to be disclosed, purportedly causing the value of the Company's stock to be artificially inflated. The '34 Act suit was brought on behalf of all persons who bought the Company's stock between July 26, 1995 and December 20, 1995. The '33 Act suit was brought on behalf of persons who bought the Company's stock pursuant to its September 21, 1995 public offering. Both complaints seek unspecified damages for the decline of the value of the Company's stock during the applicable period. A motion to dismiss both the '34 Act suit and the '33 Act suit was filed on October 18, 1996. After briefing and argument on the motions, the Court issued its decision on August 14, 1997. With respect to the '33 Act suit, the Court dismissed the claims against the underwriters, dismissed the claims brought against the Company under §12(2) of the '33 Act, and dismissed the plaintiffs' claims relating to the Company's all digital newsroom (in both the '33 Act and '34 Act cases) on the grounds that the plaintiffs had failed to allege a material misrepresentation or omission. Finding that it was required to draw all reasonable inferences in favor of the plaintiffs, the Court declined to dismiss the plaintiffs' remaining claims in the '33 Act case and the '34 Act claims relating to matters other than the all digital newsroom. On September 26, 1997, the plaintiffs filed a motion seeking to have the Court reconsider its dismissal of the underwriters from the '33 Act suit, which the underwriters have opposed. The plaintiffs also sought leave to amend both the '33 Act and the '34 Act Complaints to add claims concerning the all digital newsroom, which the Company opposed. In February 1998, the Company and the Plaintiffs entered into a Stipulation of Settlement in both suits and the judge issued an order granting preliminary approval to the settlement. A Final Settlement Approval hearing is scheduled for May 28, 1998. The Company believes the potential settlement will not have a material effect on the Company's consolidated financial position or results of operations. In the event the settlement is not finally approved, the Company believes that it and the other defendants have meritorious defenses to the remaining allegations made by the plaintiffs and intends to contest these lawsuits vigorously. Nonetheless, in the event the settlement is not approved, an adverse resolution of this litigation could have a material adverse effect on the Company's consolidated financial position or results of operations in the period in which the litigation is resolved. In such event, a reasonable estimate of the Company's potential loss for damages cannot be made at this time.

Combined Logic Company

On March 11, 1996, the Company was named as defendant in a patent infringement suit filed in the United States District Court for the Western District of Texas by Combined Logic Company, a California partnership located in Beverly Hills, California. On May 16, 1996, the suit was transferred to the United States District Court for the Southern District of New York on motion by the Company. The complaint alleges infringement by Avid of U.S. patent number 4,258,385, issued in 1981, and seeks injunctive relief, treble damages and costs, and attorneys' fees. The Company believes that it has meritorious defenses to the complaint and intends to contest it vigorously. However, an adverse resolution of this litigation could have an adverse effect on the Company's consolidated financial position or results of operations in the period in which the litigation is resolved. No costs have been accrued for this possible loss contingency.

Other

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's security holders during the last quarter of the fiscal year ended December 31, 1997.

EXECUTIVE OFFICERS OF THE COMPANY

Set forth below is (i) the name and age of each present executive officer of the Company; (ii) the position(s) presently held by each person named; and (iii) the principal occupation held by each person named for at least the past five years.

EXECUTIVE OFFICER	AGE	POSITION(S)
William J. Miller	52	Chairman of the Board, President and Chief Executive Officer
William L. Flaherty	50	Senior Vice President of Finance, Chief Financial Officer, and Treasurer
David R. Froker	42	Senior Vice President and General Manager of Digidesign
C. Edward Hazen	47	Senior Vice President and General Manager of Office and Consumer Products
Clifford A. Jenks	46	Executive Vice President and General Manager of Editing and Effects
Rose G. O'Donnell	54	Senior Vice President of Technical Strategies
David E. Olson	48	Senior Vice President and General Manager, Digital News Production
Judith M. Oppenheim	56	Senior Vice President of Human Resources and Corporate Services
Eric C. Peters	47	Senior Vice President and Chief Technology Officer
Jean Proulx	55	Senior Vice President and General Manager of Professional Products
James T. Wandrey	43	Vice President and Corporate Controller

WILLIAM J. MILLER. Mr. Miller joined the Company in April 1996 and has been Chairman, Chief Executive Officer and President since September 1996. From April 1996 to September 1996, Mr. Miller was Chairman and Chief Executive Officer. Prior to that time, Mr. Miller was Chief Executive Officer of Quantum Corporation (1992-1995).

WILLIAM L. FLAHERTY. Mr. Flaherty joined the Company in September 1996 and has been Senior Vice President of Finance and Chief Financial Officer since January 1997 and Treasurer since December 1997. He was Vice President of Finance and Chief Financial Officer from September 1996 to January 1997. Prior to joining Avid, Mr. Flaherty was Senior Vice President, Finance and Chief Financial Officer (February - September 1996), and Vice President, Finance and Chief Financial Officer (1993 - February 1996), of Gibson Greetings Inc., and was Vice President and Treasurer of FMR Corp., the parent company of Fidelity Investments Group (1989-1992).

DAVID R. FROKER. Mr. Froker has been Senior Vice President and General Manager of Digidesign since January 1997. Mr. Froker was General Manager of Digidesign from March 1996 to January 1997. Prior to that time, he was Vice President, Business Development of Digidesign, Inc. (1994-1995). He was Product Group Manager at Amdahl (1988-1993).

C. EDWARD HAZEN. Mr. Hazen has been Senior Vice President and General Manager of Office and Consumer Products since December 1997. He was Senior Vice President of Business Development and Corporate Treasurer from January 1997 to December 1997. He was Vice President, Finance and Treasurer from January 1996 to January 1997, Vice President, Chief Financial Officer and Treasurer From November 1995 to January 1996, and Vice President and Treasurer from March 1993 to January 1996. Mr. Hazen was a Managing Director of Robertson, Stephens & Company (1987-1993).

CLIFFORD A. JENKS. Mr. Jenks has been Executive Vice President and General Manager of Editing and Effects since December 1997. He was Senior Vice President of Worldwide Sales and Marketing from January 1997 to December 1997. He was Vice President Worldwide Sales and Marketing from October 1996 to January 1997. Mr. Jenks was Chief Operating Officer of Zenith Data Systems (1992-1996), and Vice President Sales and Marketing Operations of Apple Computer, Inc. (1989-1992).

ROSE G. O'DONNELL. Ms. O'Donnell has been Senior Vice President of Technical Strategies since April 1997. Ms. O'Donnell was Senior Vice President of Engineering from January 1997 to April 1997. She was Vice President, Engineering from November 1994 to January 1997. Ms. O'Donnell was General Manager of the Technology Division of Hewlett-Packard (1989-1994).

DAVID E. OLSON. Mr. Olson has been Senior Vice President and General Manager, Digital News Production since November 1997. Mr. Olson was Senior Vice President of Worldwide Operations of the Company and Chief Operating Officer of Digidesign from January 1997 to November 1997. He was Vice President of Worldwide Operations for Avid from June 1996 to January 1997. Mr. Olson was Vice President of Operations at Digidesign, Inc. from August 1991 to June 1996.

JUDITH M. OPPENHEIM. Ms. Oppenheim has been Senior Vice President of Human Resources and Corporate Services since January 1997. She was Vice President of Human Resources from November 1992 to January 1997. Ms. Oppenheim was Vice President, Human Resources at The Forum Corporation (1989- 1992).

ERIC C. PETERS. Mr. Peters has been Senior Vice President and Chief Technology Officer since January 1997. He was Vice President, Technology and Chief Technology Officer from August 1988 to January 1997.

JEAN PROULX. Ms. Proulx has been Senior Vice President and General Manager of Professional Products since December 1997. She was Senior Vice President of Engineering from May 1997 to December 1997. She was Vice President of Emerging Business at IBM from October 1995 to May 1997, was the Vice President of Network Software Business Unit at Digital Equipment Corporation from January 1994 to October 1995, and was Director of the modern Macintosh Operating Group at Apple Computer from August 1992 to November 1993.

JAMES T. WANDREY. Mr. Wandrey has been a Vice President and Corporate Controller since April 1997. He was Product Group Finance Director for Alcatel Telecom from February 1997 to April 1997 and Corporate Controller at Alcatel Network Systems from January 1995 to February 1997, both of these are units of Alcatel Alsthom S.A. Mr Wandrey was a Division Controller at Hewlett Packard Company from April 1992 to February 1995.

There are no family relationships among the named officers.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is listed on the Nasdaq National Market under the symbol AVID. The table below shows the high and low sales prices of the Common Stock for each calendar quarter the fiscal years ended December 31, 1997 and 1996.

1997	High	Low
First Quarter	$14.000	$9.000
Second Quarter	28.125	12.375
Third Quarter	38.000	22.000
Fourth Quarter	33.000	23.000

1996	High	Low
First Quarter	$23.125	$16.250
Second Quarter	26.000	17.875
Third Quarter	20.625	12.375
Fourth Quarter	16.375	10.125

The approximate number of holders of record of the Company's Common Stock at March 18, 1998, was 580. This number does not include shareholders for whom shares were held in a "nominee" or "street" name.

The Company has never declared or paid cash dividends on its capital stock and currently intends to retain all available funds for use in the operation of its business. The Company therefore does not anticipate paying any cash dividends in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected condensed consolidated financial data for Avid Technology, Inc. In January 1995, Avid Technology, Inc. (Avid) completed a merger with Digidesign, Inc. (Digidesign) that was accounted for as a pooling of interests. All financial data presented herein have been restated to include the combined financial results of Avid and Digidesign as though the merger had occurred retroactively. Prior to the merger, Digidesign had a March 31 fiscal year end. Effective with the merger, Digidesign's fiscal year end was changed from March 31 to December 31 to conform with Avid's year end. The results of Digidesign's operations for the twelve-month periods ended December 31, 1994 and March 31, 1994 are included in the Company's 1994 and 1993 results, respectively. Accordingly, Digidesign's operations for the three months January through March 1994 are included in the Company's results for both of the years ended December 31, 1993 and December 31, 1994. Revenues, net income, and diluted earnings per share for Digidesign for the three months ended March 31, 1994 were $8,510,000, $1,078,000 and $0.14 respectively. Net income for this period has been reported as an adjustment to consolidated 1994 retained earnings. In March 1995, the Company acquired Elastic Reality, Inc., a developer of digital image manipulation software, and Parallax Software Limited and 3 Space Software Limited, together developers of paint and compositing software. The Company's previous years' financial statements have not been restated to include operations of Parallax Software Limited, 3 Space Software Limited and Elastic Reality, Inc. as they were not material to the Company's consolidated operations and financial condition. Costs associated with these mergers, approximately $5,456,000, were charged to operations in 1995. In addition, the Company acquired certain other businesses which were accounted for as purchases; the results of such acquisitions have been included in the Company's financial statements since the respective dates of acquisition. The selected consolidated financial data below should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes thereto included elsewhere in this filing.

Consolidated Statements of Operations Data:
In thousands (except per share data)

	For the year ended December 31,				
	1997	**1996**	**1995**	**1994**	**1993**
Net revenues	$471,338	$429,009	$406,650	$233,633	$134,366
Cost of revenues	221,553	238,808	198,841	108,057	60,939
Gross profit	249,785	190,201	207,809	125,576	73,427
Operating expenses:					
Research and development	73,470	69,405	53,841	28,223	16,396
Marketing and selling	120,394	127,006	107,780	61,366	38,960
General and administrative	25,808	24,203	18,085	12,575	7,801
Nonrecurring costs		28,950	5,456		3,750
Total operating expenses	219,672	249,564	185,162	102,164	66,907
Operating income (loss)	30,113	(59,363)	22,647	23,412	6,520
Other income and expense, net	8,125	3,416	1,380	1,675	1,791
Income (loss) before income taxes	38,238	(55,947)	24,027	25,087	8,311
Provision for (benefit from) income taxes	11,854	(17,903)	8,588	7,294	2,209
Net income (loss)	$26,384	$(38,044)	$15,439	$17,793	$6,102
Net income (loss) per common share - basic	$1.14	$(1.80)	$0.81	$1.10	$0.45
Net income (loss) per common share - diluted	$1.08	$(1.80)	$0.77	$0.99	$0.40
Weighted average common shares outstanding - basic	23,065	21,163	19,010	16,238	13,539
Weighted average common shares outstanding - diluted	24,325	21,163	20,165	17,921	15,216

Earnings per share data have been restated for all periods presented to reflect the adoption of SFAS No. 128 as of December 31, 1997.

Consolidated Balance Sheet Data:
In thousands

	As of December 31,				
	1997	**1996**	**1995**	**1994**	**1993**
Working capital	$186,474	$145,320	$162,260	$86,513	$91,473
Total assets	356,805	300,979	331,604	182,174	132,355
Long-term debt, less current portion	403	1,186	2,945	2,369	545
Total stockholders' equity	241,794	213,415	247,966	127,887	106,732

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The text of this document may include forward-looking statements. Actual results may differ materially from those described herein, depending on such factors as are described herein, including under "Certain Factors That May Affect Future Results."

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

Results of Operations

The following table sets forth certain items from the Company's consolidated statements of operations as a percentage of net revenues for the periods indicated:

	For the year ended December 31,		
	1997	**1996**	**1995**
Net revenues	100.0%	100.0%	100.0%
Cost of revenues	47.0%	55.7%	48.9%
Gross profit	53.0%	44.3%	51.1%
Operating Expenses:			
Research and development	15.6%	16.2%	13.2%
Marketing and selling	25.5%	29.6%	26.5%
General and administrative	5.5%	5.6%	4.4%
Nonrecurring costs		6.7%	1.4%
Total operating expenses	46.6%	58.1%	45.5%
Operating income (loss)	6.4%	(13.8)%	5.6%
Other income and expense, net	1.7%	0.8%	0.3%
Income (loss) before income taxes	8.1%	(13.0)%	5.9%
Provision for (benefit from) income taxes	2.5%	(4.1)%	2.1%
Net income (loss)	5.6%	(8.9)%	3.8%

Net Revenues

The Company's net revenues have been derived mainly from the sales of disk-based digital, nonlinear media editing systems and related peripherals, licensing of related software, and sales of software maintenance contracts. Net revenues increased by $42.3 million (9.9%) to $471.3 million in the year ended December 31, 1997 from $429.0 million in 1996. Net revenues for the year ended December 31, 1996 of $429.0 million increased by $22.3 million (5.5%) from $406.7 million in 1995. The increase during 1997 in net revenues was primarily the result of growth in unit sales of MCXpress products for Macintosh and NT platforms, storage systems, and digital audio products. The increase in net revenues from 1995 to 1996 was primarily the result of worldwide growth in unit sales of the Media Composer product line and of digital audio products. During 1997, the Company began shipments of new versions of MCXpress and Avid Xpress, AudioVision 4.0, Pro Tools 24, AvidNews and Mediashare F/C. To date, product returns of all products have been immaterial.

During 1997, the Company continued to shift an increasing proportion of its sales through indirect channels such as distributors and resellers. Net revenues derived through indirect channels were greater than 60% of net revenue for the year ended December 31, 1997, compared to greater than 40% of net revenue for 1996.

International sales (sales to customers outside North America) accounted for approximately 48.6% of the Company's 1997 net revenues compared to approximately 49.5% for 1996 and 46.7% for 1995. International sales increased by 4.9% in 1997 compared to 1996 and by 11.7% in 1996 compared to 1995. The increase in international sales in 1997 was attributable primarily to higher unit sales of the storage, MCXpress, and Pro Tools products in Europe. Revenue growth from 1996 to 1997 was impacted adversely due to the strengthening of the U.S. dollar against various currencies. The increase in international sales in 1996 was attributable primarily to higher unit sales of Media Composer and Pro Tools product lines in Europe.

Gross Profit

Cost of revenues consists primarily of costs associated with the acquisition of components; the assembly, test, and distribution of finished products; provisions for inventory obsolescence; warehousing; shipping; and post-sales customer support costs. The resulting gross profit fluctuates based on factors such as the mix of products sold, the cost and proportion of third-party hardware included in the systems sold by the Company, the distribution channels through which products are sold, the timing of new product introductions, the offering of product upgrades, price discounts and other sales promotion programs and sales of aftermarket hardware products. Gross margin increased to 53.0% in 1997 compared to 44.3% in 1996 and 51.1% in 1995. The increase during 1997 was primarily due to lower material costs and manufacturing efficiencies, reduced discounts and other sales promotion programs, and a favorable product mix. The decrease in 1996 compared to 1995 largely reflects the effects of upgrading Media Composer systems for use on PCI-based computers and an increase in manufacturing overhead associated with higher facility, information system and customer support costs allocated to costs of revenues. In addition, the Company's decrease in gross margin in 1996 resulted from increased provisions for inventory obsolescence, the fourth quarter non-cash charge of $5.6 million related principally to spare parts which were no longer required to support the Company's business, and the recognition of approximately $6.2 million of revenue from the sale of certain server-based broadcast products at a relatively low gross margin. The Company currently expects gross margins during 1998 to be slightly above 1997 levels.

Research and Development

Research and development expenses increased by $4.1 million (5.9%) in the year ended December 31, 1997 compared to 1996 and increased by $15.6 million (28.9%) in the year ended December 31, 1996 compared to 1995. The increased expenditures in 1997 were primarily due to provisions resulting from the Company's profit sharing plan and additions to the Company's engineering staffs for the continued development of new and existing products. Offsetting these increases was the allocation in 1997 of product marketing costs to sales and marketing expenses rather than to research and development expenses, as that allocation more appropriately reflected the activities of that function. The increase from 1995 to 1996 was primarily due to the continued development of new and existing products. The 1995 expenses are net of $2.9 million of payments received during 1995 under certain development agreements with third parties. Research and development expenses decreased as a percentage of net revenues to 15.6% in 1997 from 16.2% in 1996 due to the allocation of product marketing costs to sales and marketing and the increase in net revenues, offset by increased expenditures due to continued development of new and existing products. The increase to 16.2% in 1996 from 13.2% in 1995 was due to significant resources required to develop and maintain various existing products. The Company capitalized software development costs, net of write-offs, of approximately $0.1 million, $1.5 million and $3.6 million in 1997, 1996 and 1995 respectively. This represents 0.1%, 2.1% and 6.2% of total research and development costs during 1997, 1996 and 1995 respectively. These costs are amortized into cost of revenues over the estimated life of the related products, generally 12 to 24 months. Amortization, net of write-offs totaled approximately $0.9 million, $2.9 million and $1.2 million in 1997, 1996 and 1995, respectively. The capitalized software development costs are associated primarily with enhancements to Media Composer software and also development of software to be used in other products.

Marketing and Selling

Marketing and selling expenses decreased by $6.6 million (5.2%) in the year ended December 31, 1997 compared to 1996 and increased by $19.2 million (17.8%) in the year ended December 31, 1996 compared to 1995. The decrease in sales and marketing in 1997 was primarily due to the effect of the restructuring of the Company's sales and marketing operations during the first quarter of 1997. The Company has shifted its primary distribution emphasis from a direct sales force to indirect sales channels, which reduced certain costs including direct sales compensation and office overhead expenses in 1997. The reduction in these costs was partially offset by the allocation in 1997 of product marketing costs to sales and marketing rather than to research and development. The increase in sales and marketing in 1996 compared to 1995 was primarily due to expansion of the Company's field sales operations and the opening of field sales offices domestically and internationally during the latter part of 1995. Marketing and selling expenses decreased as a percentage of net revenues to 25.5% in 1997 from 29.6% in 1996, and from 26.5% in 1995. This decrease in 1997 was primarily due to the increase in net revenues in 1997 compared to 1996.

General and Administrative

General and administrative expenses increased $1.6 million (6.6%) in the year ended December 31, 1997 compared to 1996 and increased by $6.1 million (33.8%) in the year ended December 31, 1996 compared to 1995. This increase in general and administrative expenses for 1997 compared to 1996 was primarily due to provisions resulting from the Company's profit sharing plan. The increase in general and administrative expenses in 1996 compared to 1995 was primarily due to increased staffing and associated costs necessary to support the Company's growth as well as increased legal expenses associated with various litigation matters to which the Company is a party and certain severance and recruiting costs. General and administrative expenses as a percentage of net revenues were 5.5% in 1997 compared to 5.6% in 1996 and increased from 4.4% in 1995.

Nonrecurring Costs

During the first quarter of 1996, the Company recorded charges for nonrecurring costs consisting of $7.0 million for restructuring charges related to February 1996 staffing reductions of approximately 70 employees primarily in the U.S., the Company's concurrent decision to discontinue certain products and development projects and $13.2 million for product transition costs in connection with the transition from NuBus to PCI bus technology in certain of its product lines. Included in the $7.0 million for restructuring charges were approximately $5.0 million of cash payments and $2.0 million of non-cash charges. During the third quarter of 1996, the Company recorded charges for costs of $8.8 million, associated primarily with the Company's decision not to release the Avid Media Spectrum product line. Approximately $7.2 million of the $8.8 million nonrecurring charge related to non-cash items associated with the write-off of assets. The Company has completed the related restructuring actions. In the first quarter of 1995, the Company acquired Digidesign, Inc., Parallax Software Limited, 3 Space Software Limited and Elastic Reality, Inc. In connection with these acquisitions, the Company recorded merger costs of approximately $5.5 million, of which $3.9 million represented direct transaction expenses and $1.6 million consisted of various restructuring charges.

Other Income and Expense, Net

Interest and other income, net consists of interest income, other income and interest expense. Interest and other income, net for 1997 which consisted primarily of interest income, increased $4.7 million from 1996 which, in turn, increased $2.0 million from 1995. For the years ended December 31, 1997 and December 31, 1996, interest and other income, net increased primarily due to higher cash and investment balances. In addition, 1996 other income increased from the 1995 amount due to the spin-out of certain technologies which resulted in equity income, a gain on sale of a product line, and royalties received during the year.

Provision for (Benefit from) Income Taxes

The Company's effective tax rate was 31%, 32%, and 36%, respectively, for 1997, 1996 and 1995. The 1997 effective tax rate of 31.0% is different from the Federal statutory rate of 35.0% due primarily to the Company's foreign subsidiaries, which are taxed in the aggregate at a lower rate, and the U.S. Federal Research Tax Credit. The 1996 effective tax rate is different from the Federal statutory rate of 35.0% primarily due to the impact of the Company's foreign subsidiaries. The 1995 effective tax rate of 36% is greater than the Federal statutory rate primarily due to non-deductible merger costs. The 1995 provision included taxes of $8.7 million at an effective rate of 32% on $27.5 million of earnings before merger charges. The 1995 provision also included a tax benefit of $640,000 on merger costs of $5.5 million, of which $1.6 million were tax deductible.

Liquidity and Capital Resources

The Company has funded its operations to date through both private and public sales of equity securities as well as through cash flows from operations. As of December 31, 1997, the Company's principal sources of liquidity included cash, cash equivalents, and marketable securities totaling approximately $187.0 million.

The Company's operating activities generated cash of $111.2 million in 1997 compared to generating cash of $40.9 million in 1996. Cash was generated during the twelve months ended December 31, 1997 primarily from net income, as well as increases in accrued expenses and income taxes payable and reductions in inventory. In 1997, the increase in accrued expenses was primarily due to provisions for profit sharing while the reduction in inventory resulted from improved stock turns.

The Company purchased $15.7 million of property and equipment and other assets during 1997, compared to $28.2 million in 1996. These purchases were primarily of hardware and software for the Company's information systems and equipment to support research and development activities.

In 1995, the Company entered into an unsecured line of credit agreement with a group of banks which provided revolving credit. The original expiration date of June 30, 1996 has been extended to June 30, 1998. Under the terms of the agreement, as amended in June 1997, the Company may borrow up to $35,000,000. The Company must pay an annual commitment fee of .25% of the average daily unused portion of the facility, payable quarterly in arrears. The Company has two loan options available under the agreement: the Base Rate Loan and the LIBOR Rate Loan. The interest rates to be paid on the outstanding borrowings for each loan annually are equal to the Base Rate or LIBOR plus 1.25%, respectively. Additionally, the Company is required to maintain certain financial ratios and is bound by covenants over the life of the agreement, including a restriction on the payment of dividends. The Company has in certain periods prior to 1997 been in default of certain financial covenants. On these occasions the defaults have been waived by the banks. There can be no assurance that the Company will not default in future periods or that, if in default, it will be able to obtain such waivers. The Company had no borrowings against the line and was not in default of any financial covenants as of December 31, 1997. The Company believes existing cash and marketable securities, internally generated funds and available borrowings under its bank credit line will be sufficient to meet the Company's cash requirements, including capital expenditures, at least through the end of 1998. In the event the Company requires additional financing, the Company believes that it would be able to obtain such financing; however, there can be no assurance that it would be successful in doing so, or that it could do so on terms favorable to the Company.

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

New Accounting Pronouncements

In June 1997, Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"), was issued which requires businesses to disclose comprehensive income and its components in general purpose financial statements, with reclassification of prior period financial statements. SFAS 130 is effective for fiscal periods beginning after December 15, 1997 and its adoption is not expected to have a material impact on the Company's disclosures.

In June 1997, Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), was issued which redefines how operating segments are determined and requires disclosures of certain financial and descriptive information about a company's operating segments. SFAS 131 is effective for fiscal periods beginning after December 15, 1997 and its adoption may require additional disclosure of the Company's historical financial data.

In October 1997, Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), was issued which provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions. SOP 97-2 is effective for transactions entered into in fiscal years beginning after December 15, 1997. The Company will adopt the guidelines of SOP 97-2 as of January 1, 1998 and its adoption is not expected to have a material impact on the Company's financial results.

Certain Factors That May Affect Future Results

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

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

The Company has shifted an increasing proportion of its sales through indirect channels such as distributors and resellers. The majority of the Company's product sales to the broadcast industry, however, continues to be sold on a direct basis. The Company believes the overall shift to indirect channels has resulted in an increase in the number of software and circuit board "kits" sold through indirect channels in comparison with turnkey systems consisting of CPUs, monitors, and peripheral devices, including accompanying software and circuit boards, sold by the Company through its direct sales force to customers. Resellers and distributors typically purchase software and "kits" from the Company and other turnkey components from other vendor sources in order to produce complete systems for resale. Therefore, to the extent the Company increases its sales through indirect channels, its revenue per unit sale will be less than it would have been had the same sale been made directly by the Company. In the event the Company is unable to increase the volume of sales in order to offset this decrease in revenue per sale or is unable to continue to reduce its costs associated with such sales, profits could be adversely affected.

In 1995, the Company shipped server-based, all-digital broadcast newsroom systems to a limited number of beta sites. These systems incorporate a variety of the Company's products, as well as a significant amount of hardware purchased from third parties, including computers purchased from Silicon Graphics, Inc. ("SGI"). Because some of the technology and products in these systems were new and untested in live broadcast environments at the time that such systems were originally installed, the Company provided greater than normal discounts to these initial customers. In addition, because some of the technology and products in these systems were new and untested in live broadcast environments at the time that such systems were originally installed, the Company has incurred unexpected delays and greater than expected costs in completing and supporting these initial installations to customers' satisfaction. As of December 31, 1997, all revenues and costs related to the initial installations have been recognized. The Company has recognized approximately $7.7 million in revenues from these initial installations and approximately $10.1 million of related costs. The Company had provided a reserve for estimated costs in excess of anticipated revenues. In 1996 and 1997, the Company installed additional server-based, all-digital broadcast newsroom systems at other customer sites. Some of these systems have been accepted by customers, and the resulting revenues and associated costs were recognized by the Company. Others of these systems have not yet been accepted by customers. The Company believes that such installations, when and if fully recognized as revenue on customer acceptance, will be profitable. However, the Company is unable to determine whether and when the systems will be accepted. In any event, the Company believes that, because of the high proportion of third-party hardware, including computers and storage devices, included in such systems, the gross margins on such sales will be lower than the gross margins generally on the Company's other systems.

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

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

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

The Company has from time to time developed new products, or upgraded existing products that incorporate advances in enabling technologies. The Company believes that further advances will occur in such enabling technologies, including microprocessors, computers, operating systems, networking technologies, bus architectures, storage devices, and digital media formats. The Company may be required, based on market demand or the decision of certain suppliers, to end the manufacturing of certain products based on earlier generations of technology, to upgrade existing products or develop other products that incorporate these further advances. In particular, the Company believes that it will be necessary to develop additional products which operate using Intel Architecture "(IA)"-based computers and the Windows NT operating system. There can be no assurance that customers will not defer purchases of existing Apple-based products in anticipation of the release of IA-based or NT-based products, that the Company will be successful in developing additional IA-based, NT-based or other new products or that they will gain market acceptance, if developed. Any deferral by customers of purchases of existing Apple-based products or any failure by the Company to develop such new products in a timely way or to gain market acceptance for them could have a material adverse effect on the Company's business and results of operations.

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

The Company is also dependent on a number of other suppliers as sole source vendors of certain other key components of its products and systems. Products purchased by the Company from sole source vendors include computers from Apple and SGI; video compression chips manufactured by C-Cube Microsystems; a small computer systems interface ("SCSI") accelerator board from ATTO Technology; a 3D digital video effects board from Pinnacle Systems; application specific integrated circuits ("ASICS") from Lucent, AMI, Atmel, and LSI Logic; digital signal processing integrated circuit from Motorola; and a fibre channel adapter card from Adaptec. The Company purchases these sole source components pursuant to purchase orders placed from time to time. The Company also manufactures certain circuit boards under license from Truevision, Inc. The Company generally does not carry significant inventories of these sole source components and has no guaranteed supply arrangements. No assurance can be given that sole source suppliers will devote the resources necessary to support the enhancement or continued availability of such components or that any such supplier will not encounter technical, operating or financial difficulties that might imperil the Company's supply of such sole source components. While the Company believes that alternative sources of supply for sole source components could be developed, or systems redesigned to permit the use of alternative components, its business and results of operations would be materially affected if it were to encounter an untimely or extended interruption in its sources of supply.

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

A significant portion of the Company's business is conducted in currencies other than the U.S. dollar. Changes in the value of major foreign currencies relative to the value of the U.S. dollar, therefore, could adversely affect future revenues and operating results. The Company attempts to reduce the impact of currency fluctuations on results through the use of forward exchange contracts that hedge foreign currency-denominated intercompany net receivables or payable balances. The

Company has generally not hedged transactions with external parties, although it periodically re-evaluates its hedging practices.

The Company is involved in various legal proceedings, including patent and securities litigation; an adverse resolution of any such proceedings could have a material adverse effect on the Company's business and results of operations. See Note K to Consolidated Financial Statements, and ITEM 3, "Legal Proceedings." This litigation has also been described in previously filed reports on Form 10-Q and 10-K.

The Company recognizes that it must ensure that its products and operations will not be adversely impacted by year 2000 software failures (the "Year 2000 issue") which can arise in time-sensitive software applications which utilize a field of two digits to define the applicable year. In such applications, a date using "00" as the year may be recognized as the year 1900 rather than the year 2000. In general, the Company expects to resolve Year 2000 issues through planned replacement or upgrades. In addition, the Company expects that any costs incurred to modify its internal systems will not be material. Although management does not expect Year 2000 issues to have a material impact on its business or future results of operations, there can be no assurance that there will not be interruptions of operations or other limitations of system functionality or that the Company will not incur significant costs to avoid such interruptions or limitations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not applicable.

AVID TECHNOLOGY, INC.

ANNUAL REPORT ON FORM 10-K

YEAR ENDED DECEMBER 31, 1997

ITEM 8

FINANCIAL STATEMENTS AND SUPPLEMENTARY FINANCIAL INFORMATION

AVID TECHNOLOGY, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements included in Item 8:

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors and Stockholders
Avid Technology, Inc.:

We have audited the consolidated balance sheets of Avid Technology, Inc. as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. We also audited the financial statement schedule of Avid Technology, Inc. listed in Item 14(d) of this Form 10-K. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Avid Technology, Inc. as of December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

/s/ COOPERS & LYBRAND L.L.P.

Boston, Massachusetts
February 4, 1998

AVID TECHNOLOGY, INC.
Consolidated Statements of Operations
(in thousands, except per share data)

	For the Year Ended December 31,		
	1997	**1996**	**1995**
Net revenues	$471,338	$429,009	$406,650
Cost of revenues	221,553	238,808	198,841
Gross profit	249,785	190,201	207,809
Operating expenses:			
Research and development	73,470	69,405	53,841
Marketing and selling	120,394	127,006	107,780
General and administrative	25,808	24,203	18,085
Nonrecurring costs		28,950	5,456
Total operating expenses	219,672	249,564	185,162
Operating income (loss)	30,113	(59,363)	22,647
Interest and other income	8,291	3,786	2,216
Interest expense	(166)	(370)	(836)
Income (loss) before income taxes	38,238	(55,947)	24,027
Provision for (benefit from) income taxes	11,854	(17,903)	8,588
Net income (loss)	$26,384	$(38,044)	$15,439
Net income (loss) per common share - basic	$1.14	$(1.80)	$0.81
Net income (loss) per common share - diluted	$1.08	$(1.80)	$0.77
Weighted average common shares outstanding - basic	23,065	21,163	19,010
Weighted average common shares outstanding - diluted	24,325	21,163	20,165

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

AVID TECHNOLOGY, INC.
Consolidated Balance Sheets
(In thousands, except share data)

	December 31, 1997	December 31, 1996
Assets		
Current assets:		
Cash and cash equivalents	$108,308	$75,795
Marketable securities	78,654	17,248
Accounts receivable, net of allowances of $7,529 and $7,519 in 1997 and 1996, respectively	79,773	86,187
Inventories	9,842	28,359
Deferred tax assets	17,160	15,852
Prepaid expenses	4,645	6,310
Other current assets	2,700	1,947
Total current assets	301,082	231,698
Marketable securities		997
Property and equipment, net	38,917	49,246
Long-term deferred tax assets	14,820	15,538
Other assets	1,986	3,500
Total assets	$356,805	$300,979
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$22,166	$25,332
Current portion of long-term debt	783	1,726
Accrued compensation and benefits	23,737	9,085
Accrued expenses	30,249	21,844
Income taxes payable	11,210	3,258
Deferred revenues	26,463	25,133
Total current liabilities	114,608	86,378
Long-term debt, less current portion	403	1,186
Commitments and contingencies (Note K)		
Stockholders' equity:		
Preferred stock, $.01 par value, 1,000,000 shares authorized; no shares issued or outstanding		
Common stock, $.01 par value, 50,000,000 shares authorized; 24,156,938 and 21,338,369 shares issued and 23,199,636 and 21,338,369 shares outstanding at December 31, 1997 and 1996, respectively	242	213
Additional paid-in capital	252,307	212,474
Retained earnings	27,286	1,451
Treasury stock, at cost, 957,302 and 0 shares at December 31, 1997 and 1996, respectively	(27,548)	
Deferred compensation	(8,034)	
Cumulative translation adjustment	(2,472)	(724)
Net unrealized gains on marketable securities	13	1
Total stockholders' equity	241,794	213,415
Total liabilities and stockholders' equity	$356,805	$300,979

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

AVID TECHNOLOGY, INC.
Consolidated Statements of Stockholders' Equity
(In thousands, except share data)

	Common Stock		Additional Paid-in	Retained
	Shares	Amount	Capital	Earnings
Balances at December 31, 1994	16,545,344	$166	$107,585	$20,920
Exercise of stock options and related tax benefits	741,313	7	11,899	
Sale of common stock under Employee Stock Purchase Plan	50,744	1	1,203	
Stock issued in connection with acquisitions	1,522,744	14	85	3,136
Sale of common stock in a public offering, net of issuance costs of $560	2,075,000	21	88,146	
Translation adjustment				
Net unrealized gains on marketable securities				
Net income				15,439
Balances at December 31, 1995	20,935,145	209	208,918	39,495
Exercise of stock options	260,055	3	1,185	
Sale of common stock under Employee Stock Purchase Plan	143,169	1	2,371	
Translation adjustment				
Net unrealized losses on marketable securities				
Net loss				(38,044)
Balances at December 31, 1996	21,338,369	213	212,474	1,451
Sale of common stock	1,552,632	16	14,712	
Acquisition of 1,000,000 shares of common stock				
Exercise of (758,298) stock options and related tax benefits	715,600	8	14,006	(549)
Sale of common stock under Employee Stock Purchase Plan	204,137	2	1,989	
Restricted stock issuance	347,200	3	9,152	
Restricted stock grants canceled and compensation expense	(1,000)		(26)	
Translation adjustment				
Net unrealized gains on marketable securities				
Net income				26,384
Balances at December 31, 1997	24,156,938	$242	$252,307	$27,286

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

Treasury Stock	Deferred Compensation	Cumulative Translation Adjustment	Net Unrealized Gains (Losses) on Marketable Securities	Total Stockholders Equity
		$(578)	$(206)	$127,887
				11,906
				1,204
				3,235
				88,167
		(122)		(122)
			250	250
				15,439
		(700)	44	247,966
				1,188
				2,372
		(24)		(24)
			(43)	(43)
				(38,044)
		(724)	1	213,415
				14,728
$(28,776)				(28,776)
1,228				14,693
				1,991
	$(9,152)			3
	1,118			1,092
		(1,748)		(1,748)
			12	12
				26,384
$(27,548)	$(8,034)	$(2,472)	$13	$241,794

AVID TECHNOLOGY, INC.
Consolidated Statements of Cash Flows
(in thousands)

	For the Year Ended December 31,		
	1997	**1996**	**1995**
Cash flows from operating activities:			
Net income (loss)	$26,384	$(38,044)	$15,439
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	25,380	29,641	19,539
Compensation from stock grants and options	2,119		
Provision for accounts receivable allowances	3,304	6,627	3,006
Deferred income taxes	(617)	(18,384)	(8,158)
Tax benefit of stock option exercises	3,658		6,023
Provision for product transition costs and nonrecurring inventory write-offs, non-cash portion		18,750	
Provision for other nonrecurring costs, non-cash portion		7,048	
Loss (gain) on disposal of equipment	222	1,410	(80)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(2,215)	13,836	(51,877)
Inventories	22,514	14,479	(31,648)
Prepaid expenses and other current assets	663	147	1,271
Accounts payable	(2,940)	(3,819)	11,559
Income taxes payable	7,556	(3,206)	1,747
Accrued expenses	23,047	9,107	7,062
Deferred revenues	2,119	3,356	6,825
Net cash provided by (used in) operating activities	111,194	40,948	(19,292)
Cash flows from investing activities:			
Capitalized software development costs	(107)	(2,295)	(3,570)
Purchases of property, equipment and other assets, net	(15,685)	(28,219)	(42,410)
Purchases of marketable securities	(147,960)	(29,430)	(68,911)
Proceeds from sales of marketable securities	87,564	58,786	50,152
Proceeds from disposals of equipment	2,227	1,550	423
Net cash provided by (used in) investing activities	(73,961)	392	(64,316)
Cash flows from financing activities:			
Payments of long-term debt	(1,726)	(2,000)	(2,148)
Proceeds from issuance of common stock	26,729	3,560	95,353
Purchase of common stock for treasury	(28,776)		
Net cash provided by (used in) financing activities	(3,773)	1,560	93,205
Effects of exchange rate changes on cash and cash equivalents	(947)	48	(5)
Net increase in cash and cash equivalents	32,513	42,948	9,592
Cash and cash equivalents at beginning of year	75,795	32,847	23,255
Cash and cash equivalents at end of year	$108,308	$75,795	$32,847

Supplemental disclosure of non-cash transactions:

Acquisition of equipment under capital lease obligations,		$186	
Acquisition of equipment under capital lease obligations,			$2,719
Issuance of common stock in connection with acquisitions,			$99

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

AVID TECHNOLOGY, INC.

Notes to Consolidated Financial Statements

A. Organization and Operations

Avid Technology, Inc. ("Avid" or "the Company") develops, markets, sells, and supports a wide range of disk-based systems for creating and manipulating digital media content. Avid's digital, nonlinear video and film editing systems are designed to improve the productivity of video and film editors by enabling them to edit moving pictures and sound in a faster, easier, more creative, and more cost-effective manner than traditional analog tape-based systems. Avid also develops and sells digital editing systems and newsroom computer systems for creating content in the digital production market and for delivering news content to air as well as digital audio systems for the professional audio market. Avid's products are used worldwide in production and post-production facilities; film studios; network, affiliate, independent and cable television stations; recording studios; advertising agencies; government and educational institutions; and corporate video departments. The Company's digital editing systems have accounted for the majority of the Company's revenues to date.

As described in Note O, in January 1995, Avid effected a merger with Digidesign, Inc. (Digidesign). Digidesign designs, assembles, markets, and supports random access digital audio production software and related application-specific hardware components, some of which are used in Avid products. The merger has been accounted for as a pooling of interests and the historical consolidated financial statements of Avid Technology, Inc. for all periods prior to the acquisition presented herein have been restated to include the financial position, results of operations and cash flows of Digidesign.

B. Summary of Significant Accounting Policies

A summary of the Company's significant accounting policies follows:

Basis of Presentation
The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany balances and transactions have been eliminated. Certain amounts in the prior years' financial statements have been reclassified to conform to the current year presentation.

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

Translation of Foreign Currencies
The functional currency of the Company's foreign subsidiaries is the local currency, except for the Irish manufacturing branch and Avid Technology Sales Ltd. in Ireland, whose functional currencies are the U.S. dollar. The assets and liabilities of the subsidiaries whose functional currencies are other than the U.S. dollar are translated into U.S. dollars at the current exchange rate in effect at the balance sheet date. Income and expense items are translated using the average exchange rate during the period. Cumulative translation adjustments are reflected as a separate component of stockholders' equity. Foreign currency transaction gains and losses are included in results of operations.

The Company enters into foreign exchange forward contracts to hedge the effect of certain asset and liability positions of its foreign subsidiaries. Gains and losses associated with currency rate changes on the contracts are recorded in results of operations, offsetting losses and gains on the related assets and liabilities. The cash flows related to the gains and losses of foreign currency forward contracts are classified in the statements of cash flows as part of cash flows from operations.

The market risk exposure from forward contracts is assessed in light of the underlying currency exposures and is limited by the term of the Company's contracts, generally one month. Credit risk from forward contracts is minimized through the placement of contracts with multiple financial institutions. Forward contracts are revalued monthly by comparing contract rates to month-end exchange rates.

Cash and Cash Equivalents
The Company considers all highly liquid debt instruments purchased with an original maturity of three months or fewer to be cash equivalents. Cash equivalents consist primarily of taxable and tax-exempt money market funds, bankers' acceptances, short-term time deposits, short-term government obligations, and commercial paper.

Marketable Securities
Marketable securities consist primarily of state and municipal bonds and commercial paper. Certain of these marketable securities with maturities in excess of one year are classified as long-term investments in marketable securities. The Company has classified its debt securities as "available for sale," and reports them at fair value, with unrealized gains and losses excluded from earnings and reported as an adjustment to stockholders' equity.

Inventories
Inventories, principally purchased components, are stated at the lower of cost (determined on a first-in, first-out basis) or market value. Inventory in the digital media market, including the Company's inventory, is subject to rapid technological change or obsolescence; therefore utilization of existing inventory may differ from the Company's estimates.

Property and Equipment
Property and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful life of the asset. Leasehold improvements are amortized over the shorter of the useful life of the improvement or the remaining term of the lease. Expenditures for maintenance and repairs are expensed as incurred. Upon retirement or other disposition of assets, the cost and related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is reflected in income. A significant portion of the property and equipment is subject to rapid technological obsolescence; as a result, the depreciation and amortization periods could ultimately shorten to reflect the change in future technology.

Revenue Recognition
Revenue is recognized upon product shipment, provided that no significant vendor obligations remain outstanding and the resulting receivable is deemed collectible by management. In instances where product is shipped with the commitment to provide a future upgrade or extended installation services, the Company will defer the revenue related to the upgrade or installation services. In addition, the Company may offer rebates on certain products from time to time which are accounted for as offsets to revenues upon shipment. Maintenance revenue is recognized ratably over the term of the maintenance agreement. Service revenue, principally training, is recognized as the services are provided. Included in accounts receivable allowances are sales allowances provided for expected returns and credits and an allowance for bad debts.

Warranty Expense
The Company provides a warranty reserve at the time of sale for the estimated costs to repair or replace defective hardware products.

Research and Development Costs
Research and development costs are expensed as incurred except for costs of internally developed or externally purchased software that qualify for capitalization. Capitalized costs are amortized using the straight-line method upon general release, over the expected life of the related products, generally 12 to 24 months. The straight-line method generally results in approximately the same amount of expense as that calculated using the ratio that current period gross product revenues bear to total anticipated gross product revenues. The Company evaluates the net realizable value of capitalized software on an ongoing basis, relying on a number of business and economic factors which could result in shorter amortization periods.

Computation of Net Income (Loss) Per Common Share
Net income per common share is presented for both basic earnings per share ("Basic EPS") and diluted earnings per share ("Diluted EPS"). Basic EPS is based upon the weighted average number of common shares outstanding during the period. Diluted EPS is based upon the weighted average number of common and common equivalent shares outstanding during the period. Common stock equivalent shares are included in the Diluted EPS calculation where the effect of their inclusion would be dilutive. Net loss per common share, both basic and dilutive, is based upon the weighted average number of common shares outstanding during the period. Common equivalent shares result from the assumed exercise of outstanding stock options, the proceeds of which are then assumed to have been used to repurchase outstanding common stock using the treasury stock method.

Recent Accounting Pronouncements

In June 1997, Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"), was issued which requires businesses to disclose comprehensive income and its components in general purpose financial statements, with reclassification of prior period financial statements. SFAS 130 is effective for fiscal periods beginning after December 15, 1997 and its adoption is not expected to have a material impact on the Company's disclosures.

In June 1997, Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), was issued which redefines how operating segments are determined and requires disclosures of certain financial and descriptive information about a company's operating segments. SFAS 131 is effective for fiscal periods beginning after December 15, 1997 and its adoption may require additional disclosure of the Company's historical financial data.

In October 1997, Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), was issued which provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions. SOP 97-2 is effective for transactions entered into in fiscal years beginning after December 15, 1997. The Company will adopt the guidelines of SOP 97-2 as of January 1, 1998 and its adoption is not expected to have a material impact on the Company's financial results.

C. Marketable Securities

Gross realized and unrealized gains and losses for the years ended December 31, 1997 and 1996 were immaterial.

	Amortized Cost	Fair Value
1997		
Federal, State, and Municipal Obligations	$78,641	$78,654
1996		
Federal, State, and Municipal Obligations	$11,465	$11,463
Commercial paper	6,779	6,782
	$18,244	$18,245

All marketable securities held at December 31, 1997 mature within 1 year.

D. Inventories

Inventories consist of the following (in thousands):

	December 31, 1997	December 31, 1996
Raw materials	$5,488	$19,182
Work in process	674	870
Finished goods	3,680	8,307
	$9,842	$28,359

E. Capitalized Software Development Costs

Capitalized purchased and internally developed software costs, included in other assets at December 31, 1997 and 1996, consist of the following (in thousands):

	December 31,	
	1997	1996
Capitalized software development costs	$6,424	$6,322
Less accumulated amortization	5,483	4,595
	$941	$1,727

Computer software costs capitalized during 1997, 1996, and 1995 amounted to approximately $107,000, $2,295,000, and $3,570,000, respectively. Amortization of computer software costs during those periods was approximately $893,000, $3,185,000, and $1,220,000, respectively. During 1996 as part of the nonrecurring costs, described in Note N, capitalized software costs of $829,000 and accumulated amortization of $334,000 were written off.

F. Property and Equipment

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

	Depreciable	December 31,	
	Life	1997	1996
Computer and video equipment	3 to 5 years	$75,042	$68,171
Office equipment	3 to 5 years	4,652	4,233
Furniture and fixtures	3 to 5 years	6,820	6,915
Leasehold improvements	3 to 10 years	13,105	12,962
		99,619	92,281
Less accumulated depreciation and amortization		60,702	43,035
		$38,917	$49,246

As of December 31, 1997 and 1996, property and equipment included approximately $6,607,000 of equipment under capital leases.

G. Long Term Debt

Capital Leases

During November 1994 and January 1995, the Company entered into equipment financing arrangements with a bank for aggregate borrowings of up to $10,000,000, at various interest rates (ranging from 4.6% to 8.1%) determined at the borrowing date. This equipment financing arrangement expired in March 1996 and was not renewed. As of December 31, 1997 and 1996, $1,186,000 and $2,912,000, respectively was outstanding as capital leases under these arrangements. Borrowings are collateralized by certain assets of the Company.

As of December 31, 1997, future minimum lease payments under capital leases were as follows (in thousands):

	Year	Amount
	1998	$831
	1999	412
Total minimum lease payments		1,243
Less amounts representing interest		57
Present value of minimum lease payments		1,186
Less current portion of long-term debt		783
Long-term portion of capital lease obligations		$403

Total cash payments for interest in 1997, 1996, and 1995 were approximately $136,000, $311,000, and $741,000, respectively.

Line of Credit

The Company has an unsecured line of credit with a group of banks which provides for up to $35.0 million in revolving credit. The line of credit agreement was amended on June 27, 1997 to expire on June 30, 1998. Under the terms of the agreement, the Company must pay an annual commitment fee of 1/4% of the average daily unused portion of the facility, payable quarterly in arrears. The Company has two loan options available under the agreement: the Base Rate Loan and the LIBOR Rate Loan. The interest rates to be paid on the outstanding borrowings for each loan annually are equal to the Base Rate or LIBOR plus 1.25%, respectively. Additionally, the Company is required to maintain certain financial ratios and is bound by covenants over the life of the agreement, including a restriction on the payment of dividends. The Company had no borrowings against this facility as of December 31, 1997.

Three of the Company's European subsidiaries have unsecured overdraft facilities that permit aggregate borrowings of Italian Lire 300,000,000, Irish Punt 150,000 and German Mark 800,000. No borrowings were outstanding under these facilities as of December 31, 1997.

H. Income Taxes

Income (loss) before income taxes and the components of the income tax provision (benefit) for the years ended December 31, 1997, 1996, and 1995 are as follows (in thousands):

	1997	1996	1995
Income (loss) before income taxes:			
United States	$22,017	$(61,242)	$5,582
Foreign	16,221	5,295	18,445
Total income (loss) before income taxes	$38,238	$(55,947)	$24,027
Provisions for (benefit from) income taxes:			
Current tax expense:			
Federal	$2,353	$(3,235)	$7,433
Foreign	4,667	3,189	5,487
State	75	(16)	1,094
Total current	7,095	(62)	14,014
Deferred tax benefit:			
Federal	4,937	(15,820)	(4,968)
Foreign	(1,237)		(32)
State	1,059	(2,021)	(426)
Total deferred	4,759	(17,841)	(5,426)
Total income tax provision (benefit)	$11,854	$(17,903)	$8,588

Net cash payments or (refunds) for income taxes in 1997, 1996, and 1995 were approximately $(1,104,103), $4,911,000, and $7,927,000 respectively. The net refund in 1997 was the result of the 1996 loss, which was carried back to 1993, 1994, and 1995 for federal tax purposes.

The cumulative amount of undistributed earnings of subsidiaries which is intended to be permanently reinvested and for which U.S. income taxes have not been provided totaled $34,806,000 at December 31, 1997.

Deferred tax assets are comprised of the following (in thousands):

	December 31,	
	1997	1996
Allowances for accounts receivable	$1,583	$1,406
Difference in accounting for:		
Revenue	3,922	2,440
Costs and expenses	9,372	6,764
Inventories	2,738	4,650
Purchased technology	43	324
Deferred intercompany profit	23	589
Tax credit and net operating loss carryforwards	14,820	15,538
Other	(521)	(321)
Net deferred tax assets	$31,980	$31,390

For U.S. Federal Income Tax purposes at December 31, 1997, the Company has tax credit carryforwards of approximately $7,291,000 which will expire between 1998 and 2012 and a net operating loss carryforward of approximately $18,105,000 which will expire in 2011. Deferred tax assets reflect the net tax effects of the tax credits and operating loss carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be realized; accordingly, no valuation allowance has been recorded for net deferred tax assets. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

A reconciliation of the Company's income tax provision (benefit) to the statutory federal tax rate follows:

	1997	1996	1995
Statutory rate	35%	(35%)	35%
Nondeductible merger costs			6
Tax credits	(4)	(1)	(3)
Foreign operations	(3)	4	(2)
State taxes, net of federal benefit	2	(2)	2
Municipal bond interest			(2)
Foreign sales corporation	(1)		(1)
Other	2	2	1
	31%	(32%)	36%

Consolidated results of operations include results of manufacturing operations in Ireland. Income from the sale of products manufactured or developed in Ireland is subject to a 10% Irish tax rate through the year 2010. The favorable Irish tax rate resulted in tax benefits of approximately $900,000 in 1997 and $1,300,000 in 1995. The 1996 Irish tax benefit was immaterial to the results of operations. The 1997 basic and dilutive per share tax benefit was $0.04 and $0.04, respectively. The 1995 basic and dilutive per share tax benefit was $0.07 and $0.06, respectively.

I. Capital Stock

Preferred Stock

The Company is authorized to issue up to one million shares of Preferred Stock, $.01 par value per share. Each such series of Preferred Stock shall have such rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges, and liquidation preferences, as shall be determined by the Board of Directors.

In February 1996, the Board of Directors approved a Shareholder Rights Plan. The rights were distributed in March 1996 as a dividend at the rate of one right for each share of Common Stock outstanding. No value has been assigned to these rights. The rights may be exercised to purchase shares of a new series of $.01 par value junior participating preferred stock or to purchase a number of shares of the Company’s Common Stock which equals the exercise price of the right, $115 divided by one-half of the then-current market price, upon occurrence of certain events, including the purchase of 20% or more of the

Company’s Common Stock by a person or group of affiliated or associated persons. The rights expire on February 28, 2006, and may be redeemed by the Company for $.01 each at any time prior to the tenth day following a change in control and in certain other circumstances.

Common Stock
During June and July 1997, the Company granted 347,200 shares of $.01 par value restricted common stock to certain employees under the 1997 Stock Incentive Plan approved by the shareholders on June 4, 1997. These shares vest annually in 20% increments beginning May 1, 1998. Accelerated vesting may occur if certain stock price performance goals established by the Board of Directors are met. Unvested restricted shares are subject to forfeiture in the event that an employee ceases to be employed by the Company. The Company initially recorded, as a separate component of stockholders’ equity, deferred compensation of approximately $9,100,000 with respect to this restricted stock. This deferred compensation represents the excess of fair value of the restricted shares at the date of the award over the purchase price and is recorded as compensation expense ratably as the shares vest. As of December 31, 1997, approximately $1,092,000 was recorded as compensation expense.

On October 23, 1997 and February 5, 1998, the Company announced that the Board of Directors authorized the repurchase of up to 1.0 million and 1.5 million shares, respectively, of the Company’s common stock. Purchases have and will be made in the open market or in privately negotiated transactions. The Company plans to use any repurchased shares for its employee stock plans. As of December 31, 1997, the Company had repurchased a total of 1.0 million shares at a cost of $28,776,000, which completed the program announced in October.

Effective with the merger between Avid and Digidesign, as of January 1, 1995 all issued and outstanding shares of Digidesign Common Stock were converted into the right to receive Avid Common Stock at an exchange ratio of 0.79.

In September 1995, the Company issued 2,000,000 shares of its Common Stock through a public offering. The Company issued an additional 75,000 shares in October 1995 as the underwriters exercised a portion of their over-allotment option. Proceeds to the Company totaled approximately $88,167,000, net of expenses and underwriters’ commissions associated with the offering.

J. Employee Benefit Plans

Profit Sharing Plans

1991 Profit Sharing Plan
The Company has a profit sharing plan under section 401(k) of the Internal Revenue Code covering substantially all U.S. employees. The 401(k) plan allows employees to make contributions up to a specified percentage of their compensation. The Company may, upon resolution by the Board of Directors, make discretionary contributions to the plan. No discretionary contributions had been made as of December 31, 1995. Effective January 1, 1996, the Company began contributing 33% of up to the first 6% of an employee’s salary contributed to the plan by the employee. The Company’s contributions to this plan totaled $988,000 and $946,000 in 1997 and 1996, respectively.

In addition, the Company has various retirement plans covering certain European employees. Certain of the plans require the Company to match employee contributions up to a specified percentage as defined by the plans. The Company made contributions of approximately $489,000, $400,000 and $302,000 in 1997, 1996 and 1995, respectively.

1997 Profit Sharing Plan
In January 1997, the Board of Directors approved the 1997 Profit Sharing Plan (the “1997 Plan”). The 1997 Plan, effective January 1, 1997, covers substantially all employees of the Company and its participating subsidiaries, other than those employees covered by other incentive plans. The Plan provides that the Company contribute a varying percentage of salary (0% to 10%) based on the Company’s achievement of targeted return on invested capital in 1997, as defined by the Plan.

1998 Profit Sharing Plan
In December 1997, the Board of Directors approved the 1998 Profit Sharing Plan (the “1998 Plan”). The 1998 Plan, effective January 1, 1998 covers substantially all employees of the Company and its participating subsidiaries, other than

those employees covered by other incentive plans. The Plan provides that the Company contribute a varying percentage of salary based on the Company's achievement of targeted return on invested capital in 1998, as defined by the Plan.

1998 Variable Compensation Plan

In December 1997, the Board of Directors approved the 1998 Executive and Senior Management Variable Compensation Plan (the "1998 Variable Plan"). The 1998 Variable Plan, effective January 1, 1998, covers executive officers and senior management. The plan provides that the Company contribute a varying percentage of salary based on the Company's achievement of targeted return on invested capital in 1998, as defined by the Plan.

Stock Plans

1989 Stock Option Plan

The 1989 Stock Option Plan (the "1989 Plan") allows for the issuance of incentive and non-qualified stock options to purchase the Company's Common Stock. Incentive stock options may not be granted at less than the fair market value of the Company's Common Stock at the date of grant and are exercisable for a term not to exceed ten years. For holders of 10% or more of the total combined voting power of all classes of the Company's stock, options may not be granted at less than 110% of the fair market value of the Common Stock at the date of grant, and the option term may not exceed 5 years. In connection with the establishment of the 1993 Stock Incentive Plan, the 1989 Plan was amended to provide that, subject to certain exceptions, no further options or awards could be issued thereunder.

1991 Stock Option Plan

Digidesign had an employee stock option plan whereby an aggregate of 1,500,000 shares of common stock were reserved for issuance. Effective upon the acquisition by Avid, the stock option agreements were assigned to Avid and Avid registered the 670,884 shares, equivalent to the number of options outstanding, taking into effect the exchange ratio of 0.79 shares of Avid Common Stock for each share of Digidesign Common Stock. Under the plan, options may be granted to employees, directors, consultants, and advisors to the Company. Incentive stock options may be granted at prices not lower than fair market value, as established by the Board of Directors on the date of grant. Non-qualified stock options may be granted at not less than 85% of fair market value, as established by the Board of Directors on the date of grant. Avid has not granted any options under this plan. The options expire in a maximum of ten years and may be either incentive stock options or non-qualified stock options, determined at the discretion of the Board of Directors. Options are immediately exercisable, subject to a right of repurchase which generally lapses as to 25% of the subject shares on the first anniversary of the vesting commencement date, and as to an additional 2.083% for each succeeding full month of continuous employment.

1993 Stock Incentive Plan

Under the 1993 Stock Incentive Plan (the "1993 Plan"), a maximum of 800,000 shares of Common Stock may be issued upon exercise of incentive stock options or non-qualified stock options, or in connection with awards of restricted stock grants, stock appreciation rights or performance shares. The terms of the incentive stock options granted under this plan are substantially the same as for those granted under the 1989 Plan. The options generally vest ratably over a four-year period.

1993 Director Stock Option Plan

The 1993 Director Stock Option Plan (the "Director Plan"), as amended April 12, 1996, provides for the grant of options to purchase up to a maximum of 220,000 shares of Common Stock of the Company to non-employee directors of the Company, at an exercise price equal to the fair market value of the stock on the date of grant. Certain options vest immediately whereas other options vest ratably over a four-year period from the date of grant.

1994 Stock Option Plan

The 1994 Stock Option Plan, as amended on February 12, 1996, allows for the issuance of incentive and non-qualified options to purchase up to a maximum of 2,400,000 shares of the Company's Common Stock. The terms of the options granted under this plan are essentially the same as for those granted under the 1989 Plan.

1997 Stock Incentive Plan

The 1997 Stock Incentive Plan covers employees, consultants, and directors of the Company, and allows for the issuance of incentive and non-qualified stock options and restricted stock grants to purchase the Company's Common Stock. An aggregate of 1,000,000 shares of Common Stock are reserved for issuance under the plan including up to 500,000 shares of restricted stock which may be issued pursuant to the plan. The terms of the options granted under this plan are essentially the same as for those granted under the 1989 Plan. The options generally vest ratably over a four-year period.

1997 Stock Option Plan

In December 1997, the Board of Directors approved the 1997 Stock Option Plan. This plan, which covers employees and consultants, other than executive officers and directors, allows for the issuance of non-qualified options to purchase up to 1,000,000 shares of the Company's common stock. The terms of the options granted under this plan are essentially the same as for those granted under the 1989 Plan. The options generally vest over a four-year period.

Employee Stock Purchase Plan

On July 31, 1996, the 1993 Employee Stock Purchase Plan (the "1993 Purchase Plan") expired and was replaced with the 1996 Employee Stock Purchase Plan (the "1996 Purchase Plan"). The 1996 Purchase Plan authorizes the issuance of a maximum of 200,000 shares of Common Stock in semi-annual offerings at a price equal to the lower of 85% of the closing price on the applicable offering commencement date or 85% of the closing price on the applicable offering termination date. In December 1997, the Board of Directors approved an amendment to the Plan. The amendment, which is subject to shareholder approval, adds 500,000 shares of common stock to the number of shares authorized to be issued under the Plan.

As disclosed in Note I, the Company has announced programs to repurchase up to 2.5 million shares of common stock for use in its employee stock purchase plans.

Stock Based Compensation Plans

The Company has eight stock-based compensation plans, which are described above. In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", which is effective for periods beginning after December 15, 1995. SFAS No. 123 requires that companies either recognize compensation expense for grants of stock, stock options, and other equity instruments based on fair value, or provide pro forma disclosures of net income and earnings per share in the notes to the financial statements. The Company adopted SFAS No. 123 in 1996 and elected the disclosure-only alternative provisions. The Company has chosen to continue to account for stock-based compensation granted to employees and directors using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock issued to Employees", and related interpretations. Accordingly, compensation cost for stock options granted to employees and directors is measured as the excess, if any, of the fair value of the Company's stock at the date of the grant over the amount that must be paid to acquire the stock. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for the awards under these plans consistent with the methodology prescribed under SFAS No. 123, the Company's net income (loss) and earnings per share would have been reduced to the pro forma amounts indicated below:

	1997			1996			1995		
	Net Income (Loss)	Earnings per share Basic	Earnings per share Dilutive	Net Income (Loss)	Earnings per share Basic	Earnings per share Dilutive	Net Income (Loss)	Earnings per share Basic	Earnings per share Dilutive
As Reported	$26,384	$1.14	$1.08	$(38,044)	$(1.80)	$(1.80)	$15,439	$0.81	$0.77
Pro Forma	$18,855	$0.82	$0.76	$(46,400)	$(2.19)	$(2.19)	$10,889	$0.57	$0.52

The fair value of each option granted during 1997, 1996, and 1995 is estimated on the date of grant using the Black-Scholes option-pricing model utilizing the following weighted-average assumptions: (1) zero-coupon U.S. government issues with interest rates of 6.47%, 6.05% and 6.26%, for 1997, 1996 and 1995 respectively, (2) expected option life from date of vesting of 17 months (3) expected stock volatility of 61.2% for 1997 and 58.31% for 1996 and 1995, and (4) expected dividend yield of 0.0%.

The fair value of awards under the Employee Stock Purchase Plans periods during 1997, 1996, and 1995 is estimated on the date of the purchase using the Black-Scholes option-pricing model utilizing the following weighted average assumptions: (1) expected option life of 6 months, (2) expected volatility of 61.2% for 1997 and 58.31% for 1996 and 1995, and (3) expected dividend yield of 0.0%. The risk-free interest rate used in determining the fair value of the plans was determined to be the rate on a zero-coupon six month U.S. Government issue on the first day of the offering period for each of the six plan periods. These interest rates ranged from 4.97% to 6.21% for all years presented. The amount of compensation expense, net of income taxes related to the Employee Stock Purchase plans, included in the pro forma net income (loss) and earnings per share detailed in the table above, is approximately $499,000, $626,000, and $837,000 for 1997, 1996, and 1995, respectively.

The effects of applying SFAS No. 123 for the purposes of pro forma disclosures may not be indicative of the effects on reported net income (loss) and net income (loss) per share for future years, as the pro forma disclosures include the effects of only those awards granted after January 1, 1995.

Information with respect to options granted under all stock option plans is as follows:

	1997		1996		1995	
	Shares	Wtd Avg. Price Per Share	Shares	Wtd Avg. Price Per Share	Shares	Wtd Avg. Price Per Share
Options outstanding at beginning of year January 1,	3,547,356	$16.18	2,986,595	$21.59	2,956,569	
Granted, at fair value	1,243,950	$14.77	2,273,398	$17.01	1,105,040	$33.60
Exercised	(758,298)	$13.23	(260,055)	$4.56	(741,313)	$8.03
Canceled	(459,481)	$17.17	(1,452,582)	$30.55	(333,701)	$26.26
Options outstanding at end of year December 31,	3,573,527	$16.09	3,547,356	$16.18	2,986,595	$21.59
Options exercisable at December 31,	1,338,726	$16.04	1,237,924	$13.71	999,602	$12.76
Options available for future grant at December 31,	674,296		866,759		821,801	
Weighted average fair value of options granted during the year	$7.46		$6.93		$15.59	

The following table summarizes information about stock options outstanding at December 31, 1997:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$0.0100 to $13.0000	1,220,057	7.82	$10.4889	354,883	$8.3389
$13.1875 to $15.3125	271,419	8.74	$14.2218	77,918	$14.2806
$15.6250 to $16.5000	978,908	8.19	$16.4563	398,770	$16.4632
$16.6875 to $19.6250	504,340	7.66	$18.8271	278,099	$18.4287
$19.7500 to $46.7500	598,803	8.20	$25.4678	229,056	$24.9226
$0.0100 to $46.7500	3,573,527	8.03	$16.0938	1,338,726	$16.0379

On February 12, 1996, the Board of Directors authorized that all options under the 1994 Stock Option Plan at an exercise price greater or equal to $28.48 would be eligible to be exchanged for options with an exercise price at the then fair market value of $16.50 per share and a first vest date of February 21, 1997. This cancellation and reissuance of stock options affected approximately 860,000 options.

K. Commitments and Contingencies

Lease Commitments

The Company leases its office space and certain equipment under non-cancelable operating leases. The future minimum lease commitments under these non-cancelable leases at December 31, 1997 are as follows (in thousands):

1998	$11,682
1999	10,516
2000	9,722
2001	5,823
2002	5,475
Thereafter	33,472
Total	$76,690

The Company's two leases for corporate office space in Tewksbury, Massachusetts, and the lease for the Company's Burbank, California sales and support office, expiring June 2010 and January 2007, respectively, contain renewal options to extend the respective terms of each lease for an additional 60 months.

The accompanying consolidated results of operations reflect rent expense on a straight-line basis over the term of the leases. Total rent expense under operating leases was approximately $13,321,762, $11,425,000 and $6,818,000 for the years ended December 31, 1997, 1996 and 1995, respectively.

The total of future minimum rentals to be received under non-cancelable subleases related to the above leases is $2.1 million.

Purchase Commitments

As of December 31, 1997, the Company has entered into two short-term non-cancelable purchase commitments for certain components used in its normal operations. The purchase commitments covered by these agreements aggregate approximately $5,958,000.

The Company currently buys certain key components used in its products from sole source suppliers. These components are purchased through purchase orders placed from time to time. The Company generally does not carry significant inventories of these sole source components and has no guaranteed supply arrangements for them. These purchasing arrangements can result in delays in obtaining products from time to time. While the Company believes that alternative sources of supply for its sole source components could be developed, its business and results of operations could be adversely affected if it were to encounter an extended interruption in its source of supply.

Accounts Sold with Recourse

The Company from time to time sells systems to unrelated financial institutions which lease such systems to end-user customers. In certain of these transactions, the Company accepts varying amounts of recourse from such unrelated third-party lessors. At December 31, 1997 and 1996, the third-party lessors' uncollected balance of lease receivables with recourse totaled approximately $57,977,000 and $22,565,000, respectively with approximately $15,428,000 and $7,964,000, respectively of associated recourse to Avid. Included in the Company's accrued expenses are provisions for estimated losses under such recourse agreements. To date, the Company has experienced no significant write-offs or returns under such recourse agreements.

Research and Development Contracts

During 1995, the Company entered into research and development contracts with third parties under which it received $4,300,000 to be used in the development of certain specified products. The Company granted to such third parties, among other things, discounted pricing on the products developed. Approximately $2,900,000 was recorded as a reduction of the related development costs during 1995. At December 31, 1995, $1,400,000 was included in accrued expenses due to the status of related product development and other terms of the underlying contracts. During 1996, that accrued amount was substantially utilized for related contract obligations.

Contingencies

On June 7, 1995, the Company filed a patent infringement complaint in the United States District Court for the District of Massachusetts against Data Translation, Inc., a Marlboro, Massachusetts-based company. Avid is seeking judgment against

Data Translation that, among other things, Data Translation has willfully infringed Avid's patent number 5,045,940, entitled "Video/Audio Transmission System and Method." Avid is also seeking an award of treble damages together with prejudgment interest and costs, Avid's costs and reasonable attorneys' fees, and an injunction to prohibit further infringement by Data Translation. The litigation has been dismissed without prejudice (with leave to refile) pending a decision by the U.S. Patent and Trademark Office on a reissue patent application based on the issued patent.

In December 1995, six purported shareholder class action complaints were filed in the United States District Court for the District of Massachusetts naming the Company and certain of its underwriters and officers and directors as defendants. On July 31, 1996, the six actions were consolidated into two lawsuits: one brought under the 1934 Securities Exchange Act (the "'34 Act suit") and one under the 1933 Securities Act (the "'33 Act suit"). Principal allegations contained in the two complaints include claims that the defendants violated federal securities laws and state common law by allegedly making false and misleading statements and by allegedly failing to disclose material information that was required to be disclosed, purportedly causing the value of the Company's stock to be artificially inflated. The '34 Act suit was brought on behalf of all persons who bought the Company's stock between July 26, 1995 and December 20, 1995. The '33 Act suit was brought on behalf of persons who bought the Company's stock pursuant to its September 21, 1995 public offering. Both complaints seek unspecified damages for the decline of the value of the Company's stock during the applicable period. A motion to dismiss both the '34 Act suit and the '33 Act suit was filed on October 18, 1996. After briefing and argument on the motions, the Court issued its decision on August 14, 1997. With respect to the '33 Act suit, the Court dismissed the claims against the underwriters, dismissed the claims brought against the Company under §12(2) of the '33 Act, and dismissed the plaintiffs' claims relating to the Company's all digital newsroom (in both the '33 Act and '34 Act cases) on the grounds that the plaintiffs had failed to allege a material misrepresentation or omission. Finding that it was required to draw all reasonable inferences in favor of the plaintiffs, the Court declined to dismiss the plaintiffs' remaining claims in the '33 Act case and the '34 Act claims relating to matters other than the all digital newsroom. On September 26, 1997, the plaintiffs filed a motion seeking to have the Court reconsider its dismissal of the underwriters from the '33 Act suit, which the underwriters have opposed. The plaintiffs also sought leave to amend their '33 Act Complaint to add new claims concerning the all digital newsroom, which the Company opposed. In February 1998, the Company and the Plaintiffs entered into a Stipulation of Settlement in both suits and the judge issued an order granting preliminary approval to the settlement. A Final Settlement Approval hearing is scheduled for May 28, 1998. The Company believes the potential settlement will not have a material effect on the Company's consolidated financial position or results of operations. In the event the settlement is not finally approved, the Company believes that it and the other defendants have meritorious defenses to the remaining allegations made by the plaintiffs and intends to contest these lawsuits vigorously. Nonetheless, in the event the settlement is not approved, an adverse resolution of this litigation could have a material adverse effect on the Company's consolidated financial position or results of operations in the period in which the litigation is resolved. In such event, a reasonable estimate of the Company's potential loss for damages cannot be made at this time.

On March 11, 1996, the Company was named as defendant in a patent infringement suit filed in the United States District Court for the Western District of Texas by Combined Logic Company, a California partnership located in Beverly Hills, California. On May 16, 1996, the suit was transferred to the United States District Court for the Southern District of New York on motion by the Company. The complaint alleges infringement by Avid of U.S. patent number 4,258,385, issued in 1981, and seeks injunctive relief, treble damages and costs, and attorneys' fees. The Company believes that it has meritorious defenses to the complaint and intends to contest it vigorously. However, an adverse resolution of this litigation could have a material adverse effect on the Company's consolidated financial position or results of operations in the period in which the litigation is resolved. No costs have been accrued for this possible loss contingency.

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

The Company has entered into employment agreements with certain officers of the Company that provide for severance pay and benefits, including accelerated vesting of options. Under the terms of the agreements, these officers receive 100% of such severance benefits if they are involuntarily terminated. Such agreements are effective for two years and are automatically extended for successive one year periods after the second anniversary, unless 30 days advance written notice is given by either party. The Company has also entered into change in control employment agreements with certain officers of the Company. As defined in the agreements, a change in control includes, but is not limited to: a third person or entity becoming the beneficial owner of 30% or more of the Company's common stock, the shareholders approving any plan or proposal for the liquidation or dissolution of the Company, or within a twenty-four month period a majority of the members of the Company's Board of Directors ceasing to continue as members of the board unless their successors are each approved by at least two-thirds of the Company's directors. If at any time within two years of the change in control, the officer's employment is terminated by the Company for any reason other than cause or by the officer for good reason, as such terms are defined in the agreement, then the employee is entitled to receive certain severance payments plus an amount equal to compensation earned under the management incentive compensation plan during the previous two years as well as accelerated vesting of options.

L. Financial Instruments

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist of temporary cash investments and trade receivables. The Company places its excess cash in marketable investment grade securities. There are no significant concentrations in any one issuer of debt securities. The Company places its cash, cash equivalents and investments with financial institutions with high credit standing. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer bases, and their dispersion across different regions. The Company also maintains reserves for potential credit losses and such losses have been within management's expectations.

Forward Exchange Contracts

As of December 31, 1997 and 1996, the Company had approximately $22,138,000 and $24,738,000, respectively, of foreign exchange forward contracts outstanding, denominated in various European and Asian currencies, the Canadian dollar and the Australian dollar, as a hedge against its committed exposures. The following table summarizes the December 31, 1997 currencies and approximate U.S. dollar amounts involved; the Company is the seller with respect to each contract with the exception of the Irish pound contract (in thousands):

	Local Currency Amount	Approximate U.S. Dollar Equivalent
Australian Dollar	1,200	$787
Singapore Dollar	1,900	1,132
Canadian Dollar	2,600	1,809
German Mark	10,600	5,953
Italian Lire	4,500,000	2,566
Irish Pound	900	1,302
French Franc	26,000	4,361
Japanese Yen	548,000	4,228
		$22,138

The forward exchange contracts generally have maturities of one month. Net gains (losses) of approximately $3,226,000, $968,000 and $(687,000) resulting from forward exchange contracts were included in results of operations in 1997, 1996 and 1995, respectively. The fair values of these forward exchange contracts as of December 31, 1997 and 1996 approximate the contract amounts.

M. Geographical Information

A summary of the Company's operations by geographical area for the years ended December 31, 1997, 1996 and 1995 follows (in thousands):

	1997	1996	1995
Net revenues:			
North America	$328,547	$283,959	$283,474
Asia Pacific and Latin America	39,165	36,424	23,365
Europe	165,785	153,311	131,014
Eliminations of transfers from North America to other areas	(62,159)	(44,685)	(31,203)
Total net revenues	$471,338	$429,009	$406,650
Operating income (loss):			
North America	$14,862	$(63,451) (1)	$11,111
Asia Pacific and Latin America	278	(191) (1)	1,480
Europe	15,182	4,991 (1)	16,732
Eliminations	(209)	(712)	(6,676) (2)
Total operating income (loss)	$30,113	$(59,363)	$22,647
Identifiable assets:			
North America	$126,286	$158,846	$196,143
Asia Pacific and Latin America	12,242	15,965	20,408
Europe	48,958	49,385	61,412
Eliminations	(17,643)	(17,257)	(26,851)
Total identifiable assets	$169,843	$206,939	$251,112
Corporate assets	186,962	94,040	80,492
Total assets at December 31,	$356,805	$300,979	$331,604

(1) Includes nonrecurring costs, as described in Note N, of $24,248,000, $632,000, and $4,070,000 recorded in North America, Asia Pacific, Latin America, and Europe, respectively, in 1996.

(2) Includes expenses of $5,456,000 related to merger costs.

Sales outside North America included in North American operations were approximately $22,086,000, $22,477,000 and $35,680,000 in 1997, 1996 and 1995, respectively.

Transfers between geographic areas are accounted for at prices which, in general, provide a profit after coverage of all manufacturing costs.

Identifiable assets are those assets of the Company that are identified with the operations in each geographic area. Corporate assets are principally cash and marketable securities.

N. Nonrecurring Costs

In the first quarter of 1996, the Company recorded a nonrecurring charge of $20,150,000. Included in this charge was $7,000,000 associated with restructuring, consisting of approximately $5,000,000 of costs related to staff reductions of approximately 70 employees, primarily in the U.S., and associated write-offs of fixed assets, and $2,000,000 related to the decision to discontinue development of certain products and projects. Included in this $7,000,000 were approximately $4,976,000 of cash payments consisting of $3,617,000 of salaries and related severance costs and $1,359,000 of other staff reduction and discontinued development costs. The non-cash charges of $2,024,000 recorded during 1996 consists primarily of $1,459,000 for the write-off of fixed assets. Also included in this $20,150,000 nonrecurring charge is $13,150,000 related to product transition costs associated with the transition from NuBus to PCI bus technology in some of the

Company's product lines. As of December 31, 1996, the Company had completed the related restructuring and product transition actions.

In September 1996, the Company recorded a nonrecurring charge of $8,800,000, associated primarily with the Company's decision not to release the Avid Media Spectrum product line. This charge includes costs to write-off inventory, fixed assets, capitalized software and various other costs associated with the canceled product line. Approximately $7,200,000 of the charge relates to non-cash items associated with the write-off of assets. As of December 31, 1997, the Company had completed the related restructuring.

As described in Note O, in connection with the 1995 acquisitions, the Company incurred merger costs of approximately $5,456,000. Of this amount, approximately $3,900,000 represented a provision for direct transaction expenses, primarily professional fees, and $1,600,000 consisted of various restructuring charges.

O. Acquisitions

In March 1995, the Company acquired Parallax Software Limited and 3 Space Software Limited, developers of paint and compositing software, and Elastic Reality, Inc., a developer of special effects software. These transactions, which were accounted for as poolings of interest, were effected through the exchange of approximately 1.5 million shares of the Company's Common Stock for all of the issued and outstanding shares of these entities. The December 31, 1995, accompanying statement of stockholders' equity includes a retained earnings adjustment for December 31, 1994 for retained earnings of the companies, as the Company's previous years' financial statements were not restated. The operations of Parallax Software Limited, 3 Space Software Limited and Elastic Reality, Inc. were not material to the Company's consolidated operations.

In January 1995, the Company completed a merger with Digidesign. The merger was accounted for as a pooling of interests and was effected through the exchange of approximately 6 million shares of the Company's Common Stock for all of the issued and outstanding shares of Digidesign based on a merger exchange ratio of .79 shares of Avid Common Stock for each share of Digidesign Common Stock. The historical consolidated financial statements for all years prior to the acquisition were restated in the consolidated financial statements to include the financial position, results of operations and cash flows of Digidesign.

P. Net Income (Loss) Per Share

The Company computes basic and diluted earnings per share in accordance with Financial Accounting Standards No. 128, “Earnings per Share,” which the Company adopted as of December 31, 1997. The following table reconciles the numerator and denominator of the basic and diluted earnings per share computations shown on the Consolidated Statements of Operations:

	For the Years Ended December 31,		
(In thousands, except per share data)	1997	1996	1995
Basic EPS			
Numerator:			
Net income (loss)	$26,384	$(38,044)	$15,439
Denominator:			
Common shares outstanding	23,065	21,163	19,010
Basic EPS	$1.14	$(1.80)	$0.81
Diluted EPS			
Numerator:			
Net income (loss)	$26,384	$(38,044)	$15,439
Denominator:			
Common shares outstanding	23,065	21,163	19,010
Common stock equivalents	1,260		1,155
	24,325	21,163	20,165
Diluted EPS	$1.08	$(1.80)	$0.77

Options to purchase 319,541 and 403,280 shares of common stock outstanding during the years ended December 31, 1997 and 1995, respectively, were excluded from the year-to-date calculation of diluted net income per share because the exercise prices of those options exceeded the average market price of common stock during those periods. Options to purchase 3,547,356 shares of common stock outstanding during the year ended December 31, 1996 were excluded from the year-to-date calculation of diluted net loss per share as the effect of their inclusion would have been anti-dilutive.

Earnings per share data have been restated for all periods presented to reflect the adoption of SFAS No. 128.

Q. Quarterly Results (Unaudited)

The following information has been derived from unaudited consolidated financial statements that, in the opinion of management, include all normal recurring adjustments necessary for a fair presentation of such information.

In thousands, except per share data:

	Quarters Ended							
	1997				1996			
	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Net revenues	$123,735	$116,510	$122,884	$108,209	$113,211	$114,664	$109,095	$92,039
Cost of revenues	54,062	51,606	59,700	56,185	66,266[(1)]	60,670	59,416	52,456
Gross profit	69,673	64,904	63,184	52,024	46,945	53,994	49,679	39,583
Operating expenses:								
Research & development	20,160	18,598	18,296	16,416	17,583	17,569	16,637	17,616
Marketing & selling	31,301	30,109	30,687	28,297	32,182	31,303	33,088	30,433
General & administrative	6,977	6,734	6,294	5,803	5,857	6,767	6,081	5,498
Nonrecurring costs						8,800		20,150
Total operating expenses	58,438	55,441	55,277	50,516	55,622	64,439	55,806	73,697
Operating income (loss)	11,235	9,463	7,907	1,508	(8,677)	(10,445)	(6,127)	(34,114)
Other income, net	2,244	2,596	2,045	1,240	1,596	523	710	587
Income (loss) before income taxes	13,479	12,059	9,952	2,748	(7,081)	(9,922)	(5,417)	(33,527)
Provision for (benefit from) income taxes	4,178	3,231	3,483	962	(2,250)	(3,164)	(1,760)	(10,729)
Net income (loss)	$9,301	$8,828	$6,469	$1,786	$(4,831)	$(6,758)	$(3,657)	$(22,798)
Net income (loss) per share - basic	$0.39	$0.37	$0.28	$0.08	$(0.23)	$(0.32)	$(0.17)	$(1.08)
Net income (loss) per share - diluted	$0.37	$0.34	$0.27	$0.08	$(0.23)	$(0.32)	$(0.17)	$(1.08)
Weighted average common shares outstanding - basic	23,601	23,912	23,164	21,550	21,306	21,224	21,104	21,019
Weighted average common shares outstanding - diluted	25,231	25,747	24,075	21,750	21,306	21,224	21,104	21,019
High common stock price	$33.000	$38.000	$28.125	$14.000	$16.375	$20.625	$26.000	$23.125
Low common stock price	$23.000	$22.000	$12.375	$9.000	$10.125	$12.375	$17.875	$16.250

(1) Includes a non-cash charge of $5.6 million related principally to spare parts which are no longer required to support the Company’s business.

Earnings per share data have been restated for all periods presented to reflect the adoption of SFAS No. 128.

The Company's quarterly operating results fluctuate as a result of a number of factors including, without limitation, the timing of new product introductions, marketing expenditures, promotional programs, and periodic discounting due to competitive factors. The Company's operating results may fluctuate in the future as a result of these and other factors, including the Company’s success in developing and introducing new products, its products and customer mix and the level of competition which it experiences. The Company operates with a relatively small backlog. Quarterly sales and operating results therefore generally depend on the volume and timing of orders received during the quarter. The Company’s expense levels are based in part on its forecasts of future revenues. If revenues are below expectations, the Company’s operating results may be adversely affected. Accordingly, there can be no assurance that the Company will be profitable in any particular quarter.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The response to this item is contained in part under the caption "EXECUTIVE OFFICERS OF THE COMPANY" in Part I hereof, and the remainder is contained in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 19, 1998 (the "1998 Proxy Statement") under the caption "Election of Directors" and “Section 16(a) Beneficial Ownership Reporting Compliance” and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The response to this item is contained in the Company's 1998 Proxy Statement under the captions "Election of Directors - Directors’ Compensation" and "Executive Compensation" and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The response to this item is contained in the Company's 1998 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management" and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Not applicable.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

The following consolidated financial statements are included in Item 8:

- Report of Independent Accountants
- Consolidated Statements of Operations for the years ended December 31, 1997, 1996 and 1995
- Consolidated Balance Sheets as of December 31, 1997 and 1996
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 1997, 1996 and 1995
- Consolidated Statements of Cash Flows for the years ended December 31, 1997, 1996 and 1995
- Notes to Consolidated Financial Statements

(a) 2. Financial Statement Schedule

The following consolidated financial statement schedule is included in Item 14(d):

Schedule II - Valuation and Qualifying Accounts

Schedules other than that listed above have been omitted since the required information is not present, or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AVID TECHNOLOGY, INC.
(Registrant)

By: /s/ William J. Miller	By: /s/ William L. Flaherty	By: /s/ James T. Wandrey
William J. Miller Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	William L. Flaherty Senior Vice President of Finance, Chief Financial Officer and Treasurer (Principal Financial Officer)	James T. Wandrey Vice President and Corporate Controller (Principal Accounting Officer)
Date: March 26, 1998	Date: March 26, 1998	Date: March 26, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

NAME	TITLE	DATE
/s/ Charles T. Brumback Charles T. Brumback	Director	March 16, 1998
/s/ William E. Foster William E. Foster	Director	March 16, 1998
/s/ Peter C. Gotcher Peter C. Gotcher	Director	March 16, 1998
/s/ Robert M. Halperin Robert M. Halperin	Director	March 16, 1998
/s/ Nancy Hawthorne Nancy Hawthorne	Director	March 13, 1998
/s/ Roger J. Heinen, Jr. Roger J. Heinen, Jr.	Director	March 16, 1998
/s/ William S. Kaiser William S. Kaiser	Director	March 13, 1998
/s/ Lucille S. Salhany Lucille S. Salhany	Director	March 16, 1998
/s/ William J. Warner William J. Warner	Director	March 19, 1998

celebrating 10 years of innovation

'87 | Avid Technology, Inc. is founded by William J. Warner.

'89 | Avid demonstrates the original Avid/1 Media Composer® nonlinear editing system at NAB and it ships in December.

'90 | Avid opens its first office in Europe.

'92 | Avid opens its first office in Asia-Pacific.

'92 | Avid sells its 500th Avid/1 Media Composer system.

'92 | Avid introduces Film Composer®, the industry's first 24-frames-per-second nonlinear editing system.

'93 | Avid concludes a successful IPO and registers shares on NASDAQ.

'93 | Neil Simon's "Lost in Yonkers," is the first widely released film cut on the Avid Film Composer system.

'93 | Avid receives an Emmy award from the National Academy of Television Arts & Sciences in New York for outstanding achievement in engineering and development.

'93 | Avid employees receive an Emmy award from the Academy of Television Arts & Sciences in Los Angeles for outstanding achievement in engineering and development of the Media Composer system.

'94 | Avid acquires BASYS Automation Systems and BASYS Automation Systems Limited and merges with SofTECH Systems, Inc.

'95 | Avid merges with Digidesign®, Inc.

'95 | Avid receives a "1994 Scientific and Engineering Award" from the Academy of Motion Picture Arts & Sciences for the Film Composer system.

'95 | Avid acquires Parallax Software, Inc. and Elastic Reality®, Inc.

'96 | Avid and Apple® Computers introduce Avid Cinema™.

'96 | Celine Dion's multiple Grammy-winning album "Falling into You," is produced using Pro Tools®.

'96 | Avid launches the MCXpress™ system for Macintosh® and Windows NT®.

'96 | CNN Headline News is the first broadcast network to replace traditional tape-based editing with Avid's server-based Digital News Gathering (DNG) System.

'97 | Avid entered into strategic alliances with both Intel® and Matsushita® to support it's development plans.

'97 | Walter Murch receives the Best Film Editing Oscar for "The English Patient." Cut on the Film Composer system, the movie is the first digitally-edited film to be recognized in the Best Film Editing category.

'97 | Avid employees receive Technical Achievement Awards from the Academy of Motion Picture Arts & Sciences for Elastic Reality special effects software.

'97 | Industrial Light & Magic uses Avid Media Illusion™ to create special effects for the summer blockbuster "Men In Black".

'97 | Avid launches the AvidNews™ newsroom computer system.

Corporate information

Independent accountants |

Coopers & Lybrand L.L.P.
Boston, Massachusetts

Transfer agent and registrar |

Boston EquiServe, L.P.
150 Royall Street
Canton, MA 02021

Shareholder inquiries |

Inquiries relating to the Company, its activities or its securities should be addressed to:

Cheryl A. Reault
Director of Investor Relations
Avid Technology, Inc.
One Park West
Tewksbury, MA 01876
tel 978 640 3033
fax 978 640 1366
email Investor_Relations@avid.com
website www.avid.com

Common shares |

Traded on the NASDAQ National Market under the symbol "AVID"

Annual meeting of shareholders |

The Annual Meeting of Shareholders will take place at 10:00 AM on May 19, 1998 at
BankBoston
100 Federal Street
Boston, MA 02110

International offices |

Amsterdam	Munich
Bangalore	Osaka
Beijing	Paris
Berlin	Seoul
Dublin	Singapore
Hamburg	Sydney
London	Tokyo
Madrid	Toronto
Manchester	Utrecht
Milan	Warsaw
Montreal	

Board of directors |

William J. Miller
Chairman of the Board, President and Chief Executive Officer
Avid Technology, Inc.

Charles T. Brumback
Retired Chairman of the Board
Tribune Company

William E. Foster
Chairman of the Board
Stratus Computer, Inc.

Peter C. Gotcher
Former President and Chief Executive Officer
Digidesign, Inc.

Robert M. Halperin
Retired President
Raychem Corporation

Nancy Hawthorne
Chief Executive Officer
Hawthorne Krauss & Associates

Roger J. Heinen Jr.
Retired Senior Vice President
Microsoft Corporation

William S. Kaiser
General Partner
Greylock Management Corp.

Lucille S. Salhany
Chief Executive Officer and Chief Operating Officer
JH Media, Ltd.

William J. Warner
Chairman of the Board
Wildfire Communications, Inc.

Corporate management

William J. Miller
Chairman of the Board, President and
Chief Executive Officer

Clifford A. Jenks
Executive Vice President and
General Manager of Editing and Effects

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

David R. Froker
Senior Vice President and
General Manager of Digidesign

C. Edward Hazen
Senior Vice President and
General Manager of Office and Consumer Products

Rose G. O'Donnell
Senior Vice President of Technical Strategies

David E. Olson
Senior Vice President and
General Manager of Digital News Production

Judith M. Oppenheim
Senior Vice President of
Human Resources and Corporate Services

Eric C. Peters
Senior Vice President and
Chief Technology Officer

Jean Proulx
Senior Vice President and
General Manager of Professional Products

James T. Wandrey
Vice President and Corporate Controller

Corporate headquarters

Avid Technology, Inc.
One Park West
Tewksbury, MA 01876
tel 978 640 6789
website www.avid.com

European headquarters

Avid Technology Europe Limited
Pinewood Studios
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Iver Heath, Buckinghamshire SL0 0NH
England

Asian headquarters

Avid Technology S.E. (Asia) Pte. Ltd.
315 Alexandra Road
#03-01 Performance Center
Singapore 159944
Republic of Singapore

Domestic offices

Atlanta	Palo Alto
Chicago	San Francisco
Dallas	Tewksbury
Los Angeles	Washington D.C.
New York	

Avid®

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