

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

March 26, 1998

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

Re: Avid Technology, Inc.
File No. 0-21174
Annual Report on Form 10-K

Ladies and Gentlemen:

Pursuant to regulations of the Securities and Exchange Commission, submitted herewith for filing on behalf of Avid Technology, Inc. is the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.

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

Very truly yours,

/s/ Frederic G. Hammond

Frederic G. Hammond
General Counsel

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(MARK ONE)

- 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 (I.R.S. Employer
incorporation or organization) 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 X 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 ss.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
AND FINANCIAL STATEMENT SCHEDULE

CONSOLIDATED FINANCIAL STATEMENTS INCLUDED IN ITEM 8:

Report of Independent Accountants.....	24
Consolidated Statements of Operations for the years ended December 31, 1997, 1996 and 1995.....	25
Consolidated Balance Sheets as of December 31, 1997 and 1996.....	26
Consolidated Statements of Stockholders' Equity for the years ended December 31, 1997, 1996 and 1995.....	27
Consolidated Statements of Cash Flows for the years ended December 31, 1997, 1996 and 1995.....	28
Notes to Consolidated Financial Statements.....	29
Consolidated Financial Statement Schedule for the years ended December 31, 1997, 1996 and 1995 included in Item 14(d):	
Schedule II -.....Valuation and Qualifying Accounts	F-1

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.

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.

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	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.

Consolidated Statements of Stockholders' Equity
(in thousands, except share data)

	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Deferred Compensation	Cumulative Translation Adjustment	Net Unrealized Gains (Losses) on Marketable Securities	Total Stockholders' Equity
Balances at December 31, 1994	16,545,344	\$166	\$107,585	\$20,920			\$(578)	\$(206)	\$127,887
Exercise of stock options and related tax benefits	741,313	7	11,899						11,906
Sale of common stock under Employee Stock Purchase Plan	50,744	1	1,203						1,204
Stock issued in connection with acquisitions	1,522,744	14	85	3,136					3,235
Sale of common stock in a public offering, net of issuance costs of \$560	2,075,000	21	88,146						88,167
Translation adjustment							(122)		(122)
Net unrealized gains on marketable securities								250	250
Net income				15,439					15,439
Balances at December 31, 1995	20,935,145	209	208,918	39,495			(700)	44	247,966
Exercise of stock options	260,055	3	1,185						1,188
Sale of common stock under Employee Stock Purchase Plan	143,169	1	2,371						2,372
Translation adjustment							(24)		(24)
Net unrealized losses on marketable securities								(43)	(43)
Net loss				(38,044)					(38,044)
Balances at December 31, 1996	21,338,369	213	212,474	1,451			(724)	1	213,415
Sale of common stock	1,552,632	16	14,712						14,728
Acquisition of 1,000,000 shares of common stock					\$(28,776)				(28,776)
Exercise of (758,298) stock options and related tax benefits	715,600	8	14,006	(549)	1,228				14,693
Sale of common stock under Employee Stock Purchase Plan	204,137	2	1,989						1,991
Restricted stock issuance	347,200	3	9,152			\$(9,152)			3
Restricted stock grants cancelled and compensation expense	(1,000)		(26)			1,118			1,092
Translation adjustment							(1,748)		(1,748)
Net unrealized gains on marketable securities								12	12
Net income				26,384					26,384
Balances at December 31, 1997	24,156,938	\$242	\$252,307	\$27,286	\$(27,548)	\$(8,034)	\$(2,472)	\$13	\$241,794

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

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	<u>\$108,308</u>	<u>\$75,795</u>	<u>\$32,847</u>

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 0, 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.

----	Cost	Value
Federal, State, and Municipal Obligations	\$78,641	\$78,654
	=====	=====

1996

----	Cost	Value
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	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 Life	December 31,	
		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
Cancelled	(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 ss.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:

(In thousands, except per share data)	For the Years Ended December 31,		
	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 captions "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.

a) 3. LISTING OF EXHIBITS

EXHIBIT NO.	DESCRIPTION
3.1	Certificate of Amendment of the Third Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed with the Commission on May 15, 1995, File No. 0-21174).
3.2	Third Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to the Registrant's Registration Statement on Form S-8 as filed with the Commission on June 9, 1993, File No. 33-64126).
3.3	Amended and Restated By-Laws of the Registrant (incorporated by reference to the Registrant's Registration Statement on Form S-1 as declared effective by the Commission on March 11, 1993, File No. 33-57796).
3.4	Certificate of Designations establishing Series A Junior Participating Preferred Stock (the "Certificate of Designations") (incorporated by reference to the Registrant's Current Report on Form 8-K as filed with the Commission on March 8, 1996).
3.5	Certificate of Correction to the Certificate of Designations (incorporated by reference to the Registrant's Current Report on Form 8-K as filed with the Commission on March 8, 1996).
4.1	Specimen Certificate representing the Registrant's Common Stock (incorporated by reference to the Registrant's Registration Statement on Form S-1 as declared effective by the Commission on March 11, 1993, File No. 33-57796).
4.2	Rights Agreement, dated as of February 29, 1996, between the Registrant and The First National Bank of Boston, as Rights Agent (incorporated by

reference to the Registrant's Current Report on Form 8-K as filed with the Commission on March 8, 1996, File No. 0-21174).

- 10.1 Lease dated September 29, 1995 between Allied Dunbar Insurance PLC and Avid Technology Limited (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed with the Commission on November 14, 1995, File No. 0-21174).
- 10.2 Lease dated August 30, 1995 between Syntex (U.S.A.) Inc. and Avid Technology, Inc. (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed with the Commission on November 14, 1995, File No. 0-21174).
- 10.3 Lease between MGI Andover Street, Inc. and Avid Technology, Inc. dated March 21, 1995 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed with the Commission on May 15, 1995, File No. 0-21174).
- 10.4 Amended and Restated lease dated as of June 7, 1996 between MGI One Park West, Inc. and Avid Technology, Inc. (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed with the Commission on August 14, 1996, File No. 0-21174).
- 10.5 Amended and Restated Revolving Credit Agreement among Avid Technology, Inc., The First National Bank of Boston, as agent, NationsBank of Texas, N.A., BayBank and ABN AMRO Bank N.V. dated as of July 1, 1995 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed with the Commission on August 9, 1995, File No. 0-21174).
- 10.6 First Amendment dated September 30, 1995 to Amended and Restated Revolving Credit Agreement by and among Avid Technology, Inc., The First National Bank of Boston, as agent, NationsBank of Texas, N.A., BayBank and ABN AMRO Bank N.V. (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed with the Commission on November 14, 1995, File No. 0-21174).
- 10.7 Second Amendment dated as of February 28, 1996 to Amended and Restated Revolving Credit Agreement among Avid Technology, Inc., The First National Bank of Boston, as agent, NationsBank of Texas, N.A., BayBank and ABN AMRO Bank N.V. dated as of June 30, 1996 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed with the Commission on August 14, 1996, File No. 0-21174).
- 10.8 Third Amendment dated as of May 8, 1996 to Amended and Restated Revolving Credit Agreement among Avid Technology, Inc., The First National Bank of Boston, as agent, NationsBank of Texas, N.A., BayBank and ABN AMRO Bank N.V. dated as of June 30, 1996 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed with the Commission on August 14, 1996, File No. 0-21174).
- 10.9 Fourth Amendment dated as of June 28, 1996 to Amended and Restated Revolving Credit Agreement among Avid Technology, Inc., The First National Bank of Boston, as agent, NationsBank of Texas, N.A., BayBank and ABN AMRO Bank N.V. dated as of June 30, 1996 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed with the Commission on August 14, 1996, File No. 0-21174).
- 10.10 Fifth Amendment dated as of July 1, 1996 to Amended and Restated Revolving Credit Agreement among Avid Technology, Inc., The First National Bank of Boston, as agent, NationsBank of Texas, N.A., BayBank and ABN AMRO Bank N.V. dated as of June 30, 1996 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed with the Commission on August 14, 1996, File No. 0-21174).
- 10.11 Sixth Amendment dated as of June 27, 1997 to Amended and Restated Revolving Credit Agreement and Assignment (the "Sixth Amendment"), by and among AVID TECHNOLOGY, INC., a Delaware corporation (the "Borrower"), BANKBOSTON, N.A. (formerly known as The First National Bank of Boston) and the other lending institutions listed on Schedule 1 to the Credit Agreement, amending certain provisions of the Amended and Restated Revolving Credit Agreement dated as of June 30, 1995 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed with the Commission on August 12, 1997, File No. 0-21174).
- *#10.12 Seventh Amendment dated as of October 1, 1997 to Amended and Restated Revolving Credit Agreement (the "Seventh Amendment"), by and among AVID TECHNOLOGY, INC., a Delaware corporation (the "Borrower"), BANKBOSTON, N.A. (formerly known as The First National Bank of Boston) and the other lending institutions listed on Schedule 1 to the Credit Agreement, amending certain provisions of the Amended and Restated Revolving Credit Agreement dated as of June 30, 1995.
- 10.13 Form of Distribution Agreement (incorporated by reference to the Registrant's Registration Statement on Form S-1 as declared effective by the Commission on March 11, 1993, File No. 33-57796).
- 10.14 Form of Purchase and License Agreement (incorporated by reference to the Registrant's Registration Statement on Form S-1 as declared effective by the Commission on March 11, 1993, File No. 33-57796).
- 10.15 Form of Software Only License Agreement (incorporated by reference to the Registrant's Registration Statement on Form S-1 as declared effective by the Commission on March 11, 1993, File No. 33-57796).
- #10.16 1989 Stock Option Plan (incorporated by reference to the Registrant's Registration Statement on Form S-1 as declared effective by the Commission on March 11, 1993, File No. 33-57796).

- #10.17 1993 Stock Incentive Plan (incorporated by reference to the Registrant's Registration Statement on Form S-1 as declared effective by the Commission on March 11, 1993, File No. 33-57796).
- #10.18 1993 Director Stock Option Plan, as amended (incorporated by reference to the Registrant's Proxy Statement as filed with the Commission on April 27, 1995, File No. 0-21174).
- #10.19 1993 Executive Compensation Agreement (incorporated by reference to the Registrant's Registration Statement on Form S-1 as declared effective by the Commission on March 11, 1993, File No. 33-57796).
- #10.20 1993 Employee Stock Purchase Plan (incorporated by reference to the Registrant's Registration Statement on Form S-8 as filed with the Commission on June 9, 1993, File No. 33-64130).
- #10.21 1994 Stock Option Plan, as amended (incorporated by reference to the Registrant's Registration Statement on Form S-8 as filed with the Commission on October 27, 1995, File No. 33-98692).
- #10.22 Digidesign, Inc. 1991 Stock Option Plan (incorporated by reference to Registrant's Quarterly Report on Form 10-Q as filed with the Commission on May 15, 1995, File No. 0-21174).
- #10.23 1995 Executive Variable Compensation Program (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed with the Commission on May 15, 1995, File No. 0-21174).
- *#10.24 1998 Executive and Senior Management Variable Compensation Plan.
- #10.25 1997 Stock Option Plan.
- *#10.26 1996 Employee Stock Purchase Plan, as amended.
- #10.27 1998 Non-Qualified Deferred Compensation Plan (incorporated by reference to the Registrant's Registration Statement on Form S-8 as filed with the Commission on December 18, 1997, File No. 33-42569).
- *#10.28 1998 Profit Sharing Plan.
- *#10.29 Employment Agreement between the Company and William J. Miller.
- *#10.30 Change-in-Control Agreement between the Company and William J. Miller.
- *#10.31 Employment Agreement between the Company and William L. Flaherty.
- *#10.32 Change-in-Control Agreement between the Company and William L. Flaherty.
- #10.33 Employment agreement between the Company and Clifford Jenks(incorporated by reference to the Registrant's quarterly Report on Form 10-Q as filed with the Commission on November 14, 1996, File No. 0-21174).
- *21 Subsidiaries of the Registrant.
- *23.1 Consent of Coopers & Lybrand L.L.P., Independent Accountants.

- - - - -
 *documents filed herewith
 #Management contract or compensatory plan identified pursuant to Item 14 (a) 3.

(b) REPORTS ON FORM 8-K

For the fiscal quarter ended December 31, 1997, the Company filed no Current Reports on Form 8-K.

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

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

By: /s/ William L. Flaherty

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

Date: March 26, 1998

Date: March 26, 1998

By: /s/ James T. Wandrey

James T. Wandrey
Vice President and
Corporate Controller
(Principal Accounting Officer)

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 -----

AVID TECHNOLOGY, INC.
ANNUAL REPORT ON FORM 10-K
YEAR ENDED DECEMBER 31, 1997
ITEM 14(d)
FINANCIAL STATEMENT SCHEDULE

AVID TECHNOLOGY, INC.

SCHEDULE II - SUPPLEMENTAL VALUATION AND QUALIFYING ACCOUNTS

Years ended December 31, 1997, 1996 and 1995

Description	Balance at beginning of period	Additions		Deductions	Balance at end of period
		Charged to costs and expenses	Charged to other accounts		
Allowance for doubtful accounts					
December 31, 1997	\$6,959,243	\$2,032,489	\$(413,862)	\$(1,479,977)(a)	\$7,097,893
December 31, 1996	6,011,617	5,599,130	792,927	(5,444,431)(a)	6,959,243
December 31, 1995	2,307,817	4,304,775	179,578	(780,553)(a)	6,011,617
Sales returns and allowances					
December 31, 1997	\$559,600		\$152,272(b)	\$(281,162)(a)	\$430,710
December 31, 1996	460,595		283,478(b)	(184,473)(a)	559,600
December 31, 1995	846,936		35,837(b)	(422,178)(a)	460,595
Inventory valuation allowance					
December 31, 1997	\$8,372,460	\$5,136,384	\$166,187	\$(4,747,190)(a)	\$8,927,840
December 31, 1996	9,780,463	22,925,413		(24,333,416)(a)	8,372,460
December 31, 1995	5,462,514	10,089,567	972,371	(6,743,989)(a)	9,780,463

(a) Amount represents write-offs net of recoveries.

(b) Sales returns provisions are charged directly against revenue.

INDEX TO EXHIBITS

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10.9	Fourth Amendment dated as of June 28, 1996 to Amended and Restated Revolving Credit Agreement among Avid Technology, Inc., The First National Bank of Boston, as agent, NationsBank of Texas, N.A., BayBank and ABN AMRO Bank N.V. dated as of June 30, 1996 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed with the Commission on August 14, 1996, File No. 0-21174).	

- 10.10 Fifth Amendment dated as of July 1, 1996 to Amended and Restated Revolving Credit Agreement among Avid Technology, Inc., The First National Bank of Boston, as agent, NationsBank of Texas, N.A., BayBank and ABN AMRO Bank N.V. dated as of June 30, 1996 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed with the Commission on August 14, 1996, File No. 0-21174).
- 10.11 Sixth Amendment dated as of June 27, 1997 to Amended and Restated Revolving Credit Agreement and Assignment (the "Sixth Amendment"), by and among AVID TECHNOLOGY, INC., a Delaware corporation (the "Borrower"), BANKBOSTON, N.A. (formerly known as The First National Bank of Boston) and the other lending institutions listed on Schedule 1 to the Credit Agreement, amending certain provisions of the Amended and Restated Revolving Credit Agreement dated as of June 30, 1995 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed with the Commission on August 12, 1997, File No. 0-21174).
- *#10.12 Seventh Amendment dated as of October 1, 1997 to Amended and Restated Revolving Credit Agreement (the "Seventh Amendment"), by and among AVID TECHNOLOGY, INC., a Delaware corporation (the "Borrower"), BANKBOSTON, N.A. (formerly known as The First National Bank of Boston) and the other lending institutions listed on Schedule 1 to the Credit Agreement, amending certain provisions of the Amended and Restated Revolving Credit Agreement dated as of June 30, 1995.
- 10.13 Form of Distribution Agreement (incorporated by reference to the Registrant's Registration Statement on Form S-1 as declared effective by the Commission on March 11, 1993, File No. 33-57796).
- 10.14 Form of Purchase and License Agreement (incorporated by reference to the Registrant's Registration Statement on Form S-1 as declared effective by the Commission on March 11, 1993, File No. 33-57796).
- 10.15 Form of Software Only License Agreement (incorporated by reference to the Registrant's Registration Statement on Form S-1 as declared effective by the Commission on March 11, 1993, File No. 33-57796).
- #10.16 1989 Stock Option Plan (incorporated by reference to the Registrant's Registration Statement on Form S-1 as declared effective by the Commission on March 11, 1993, File No. 33-57796).
- #10.17 1993 Stock Incentive Plan (incorporated by reference to the Registrant's Registration Statement on Form S-1 as declared effective by the Commission on March 11, 1993, File No. 33-57796).
- #10.18 1993 Director Stock Option Plan, as amended (incorporated by reference to the Registrant's Proxy Statement as filed with the Commission on April 27, 1995, File No. 0-21174).
- #10.19 1993 Executive Compensation Agreement (incorporated by reference to the Registrant's Registration Statement on Form S-1 as declared effective by the Commission on March 11, 1993, File No. 33-57796).
- #10.20 1993 Employee Stock Purchase Plan (incorporated by reference to the Registrant's Registration Statement on Form S-8 as filed with the Commission on June 9, 1993, File No. 33-64130).
- #10.21 1994 Stock Option Plan, as amended (incorporated by reference to the Registrant's Registration Statement on Form S-8 as filed with the Commission on October 27, 1995, File No. 33-98692).
- #10.22 Digidesign, Inc. 1991 Stock Option Plan (incorporated by reference to Registrant's Quarterly Report on Form 10-Q as filed with the Commission on May 15, 1995, File No. 0-21174).
- #10.23 1995 Executive Variable Compensation Program (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q as filed with the Commission on May 15, 1995, File No. 0-21174).
- *#10.24 1998 Executive and Senior Management Variable Compensation Plan.
- *#10.25 1997 Stock Option Plan.
- #10.26 1996 Employee Stock Purchase Plan, as amended.
- #10.27 1998 Non-Qualified Deferred Compensation Plan (incorporated by reference to the Registrant's Registration Statement on Form S-8 as filed with the Commission on December 18, 1997, File No. 33-42569).
- *#10.28 1998 Profit Sharing Plan.
- *#10.29 Employment Agreement between the Company and William J. Miller.
- *#10.30 Change-in-Control Agreement between the Company and William J. Miller.
- *#10.31 Employment Agreement between the Company and William L. Flaherty.
- *#10.32 Change-in-Control Agreement between the Company and William L. Flaherty.
- #10.33 Employment agreement between the Company and Clifford Jenks (incorporated by reference to the Registrant's quarterly Report on Form 10-Q as filed with the Commission on November 14, 1996, File No. 0-21174).
- *21 Subsidiaries of the Registrant.
- *23.1 Consent of Coopers & Lybrand L.L.P., Independent Accountants.

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*documents filed herewith

#Management contract or compensatory plan identified pursuant to Item 14 (a) 3.

SEVENTH AMENDMENT
TO AMENDED AND RESTATED
REVOLVING CREDIT AGREEMENT

Seventh Amendment dated as of October 1, 1997 to Amended and Restated Revolving Credit Agreement (the "Seventh Amendment"), by and among AVID TECHNOLOGY, INC., a Delaware corporation (the "Borrower"), BANKBOSTON, N.A. (FORMERLY KNOWN AS THE FIRST NATIONAL BANK OF BOSTON) and the other lending institutions listed on SCHEDULE 1 to the Credit Agreement (as hereinafter defined) (the "Banks") and BANKBOSTON, N.A., as agent for the Banks (in such capacity, the "Agent"), amending certain provisions of the Amended and Restated Revolving Credit Agreement dated as of June 30, 1995 (as amended and in effect from time to time, the "Credit Agreement") by and among the Borrower, the Banks and the Agent. Terms not otherwise defined herein which are defined in the Credit Agreement shall have the same respective meanings herein as therein.

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

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

SS.1. AMENDMENT TO SS.7 OF THE CREDIT AGREEMENT. Section 7.3 of the Credit Agreement is hereby amended by deleting the text of ss.7.3(g) in its entirety and restating it as follows:

(g) an Investment by the Borrower in Pluto Technologies, Inc. ("Pluto") in an aggregate amount of not more than \$1,100,000 pursuant to a joint development and marketing agreement between the Borrower and Pluto; PROVIDED, that no Default or Event of Default has occurred and is continuing or would exist immediately after giving effect to such Investment.

SS.2. CONDITIONS TO EFFECTIVENESS. This Seventh Amendment shall not become effective until the Agent receives a counterpart of this Seventh Amendment executed by the Borrower, the Banks and the Agent.

SS.3. REPRESENTATIONS AND WARRANTIES. The Borrower hereby repeats, on and as of the date hereof, each of the representations and warranties made by it in ss.5 of the Credit Agreement, PROVIDED, that all references therein to the Credit Agreement shall refer to such Credit Agreement as amended hereby. In addition, the Borrower hereby represents and warrants that the execution and delivery by the Borrower of this Seventh Amendment and the performance by the Borrower of all of its agreements and obligations under the Credit Agreement as amended hereby are within the corporate authority of the Borrower and have been duly authorized by all necessary corporate action on the part of the Borrower.

SS.4. RATIFICATION, ETC. Except as expressly amended hereby, the Credit Agreement and all documents, instruments and agreements related thereto are hereby ratified and confirmed in all respects and shall continue in full force and effect. The Credit Agreement and this Seventh Amendment shall be read and construed as a single agreement. All references in the Credit Agreement or any related agreement or instrument to the Credit Agreement shall hereafter refer to the Credit Agreement as amended hereby.

SS.5. NO WAIVER. Nothing contained herein shall constitute a waiver of, impair or otherwise affect any Obligations, any other obligation of the Borrower or any rights of the Agent or the Banks consequent thereon.

SS.6. COUNTERPARTS. This Seventh Amendment may be executed in one or more counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

SS.7. GOVERNING LAW. THIS SEVENTH AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS (WITHOUT REFERENCE TO CONFLICT OF LAWS).

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

AVID TECHNOLOGY, INC.

By: /s/ C. Edward Hazen

Title: Treasurer

BANKBOSTON, N.A.,
individually and as Agent

By: /s/John B. Desmond

Title: Vice President

ABN AMRO BANK N.V.

By: /s/ Brian M. Horgan

Title: Vice President

Avid Technology, Inc.
1998 Executive and Senior Management
Variable Compensation Plan Description

PARTICIPATION

Senior Consulting Engineers, Directors, Vice Presidents, and Executive Officers in salary grades determined by the Board of Directors participate in this Plan.

GOALS AND MEASUREMENT

ROIC is the Plan goal and is calculated as shown below:

$$\text{ROIC} = \frac{\text{OPERATING INCOME}}{\text{Total Non-Cash Assets MINUS Interest-Bearing Debt}}$$

OPERATING INCOME (the numerator) is defined as profit from operations. Operating Income offers the advantage over Net Income (which was used as the numerator in the 1997 ROIC calculation) of factoring out the effects of tax rate, income earned on cash balances not currently used in the Company's operations, and interest expense on any interest-bearing debt. It therefore focuses on those operational areas influenced by the vast majority of participants in this Plan.

INVESTED CAPITAL (the denominator) is defined as total assets less cash and debt. It therefore encompasses all the places where the Company truly employs funds in its operations. In the 1997 Plan, Invested Capital was defined somewhat differently as Stockholders' Equity less cash. This revised 1998 definition again focuses on operating performance.

In 1998, executive variable compensation will be based on a relative comparison of Avid's actual 1998 ROIC performance with the ROIC performance of its chosen peer group, the S&P High Tech Composite, for the four-quarter period ended on or nearest to September 30, 1997. The benchmark in 1998 is the peer group rather than Avid's annual budget.

The Plan will begin paying out if Avid's ROIC equals a percentile of peer group performance set by the Board. 100% award payout will occur at a percentile of peer group performance set by the Board rather than at attainment of Avid's annual budget as in prior years.

In order to pay out more than 100% of target, 1998 operating income must be higher than that of 1997 by a factor determined by the Board of Directors.

TARGET AWARDS

The target variable compensation award is the award a Plan participant will receive if Avid achieves the median ROIC performance of its peer group. The target award can be expressed as either a dollar amount or as a percentage of base salary.

PRORATED AWARDS

Individual awards will be prorated under the following circumstances:

- 1) Any salary changes throughout the year will be prorated.
- 2) If a participant is hired after January 1, the variable compensation award will be prorated for that portion of the fiscal year worked for Avid. For example, if the participant is hired July 1, 1998, s/he will receive 50% of the calculated variable compensation award.
- 3) If a participant is promoted after January 1 to a position with a higher variable compensation award, the 1998 award will be prorated for that portion of the fiscal year each award level was in effect.
- 4) If a participant becomes disabled and qualifies for benefits under Avid's long-term disability plan, the variable compensation award will be prorated for that portion of the fiscal year s/he was paid through the Avid payroll as an employee.
- 5) If a participant is laid off by Avid, the variable compensation award will be prorated through the effective employment termination date. In this case, the payout may not exceed 100% of the prorated target award.
- 6) If a participant dies while in Avid employment, the variable compensation award will be prorated as of the date of death and paid to the surviving spouse, or if none, to the estate.

PLAN PAYOUT

The Plan payout will be determined after audited financial results for 1998 are determined and released, near the end of January 1999. Plan payout is expected to occur in February. Employees must be employed by Avid at the time of actual Plan payout to receive their incentive compensation award, unless eligible for a prorated award as described above.

CHANGES TO THE PLAN

The Company reserves the right at its sole discretion to modify, amend, revoke, or suspend the Plan at any time

This is a Plan summary and is not intended to be and shall not be interpreted as

an employment contract.

AVID TECHNOLOGY, INC.

1997 STOCK OPTION PLAN

1. PURPOSE

The purpose of this 1997 Stock Option Plan (the "Plan") of Avid Technology, Inc., a Delaware corporation (the "Company"), is to advance the interests of the Company's stockholders by enhancing the Company's ability to attract, retain and motivate persons who make (or are expected to make) important contributions to the Company by providing such persons with equity ownership opportunities and thereby better aligning the interests of such persons with those of the Company's stockholders. Except where the context otherwise requires, the term "Company" shall include any present or future subsidiary corporations of Avid Technology, Inc. as defined in Section 424(f) of the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder.

2. ELIGIBILITY

All of the Company's employees, other than those who are also executive officers or directors, and the Company's consultants and advisors are eligible to be granted options (each, an "Option") under the Plan. Any person who has been granted an Option under the Plan shall be deemed a "Participant".

3. ADMINISTRATION, DELEGATION

(a) ADMINISTRATION BY BOARD OF DIRECTORS. The Plan will be administered by the Board of Directors of the Company (the "Board"). The Board shall have authority to grant Options and to adopt, amend and repeal such administrative rules, guidelines and practices relating to the Plan as it shall deem advisable. The Board may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Option in the manner and to the extent it shall deem expedient to carry the Plan into effect and it shall be the sole and final judge of such expediency. All decisions by the Board shall be made in the Board's sole discretion and shall be final and binding on all persons having or claiming any interest in the Plan or in any Option. No director or person acting pursuant to the authority delegated by the Board shall be liable for any action or determination relating to or under the Plan made in good faith.

(b) DELEGATION TO EXECUTIVE OFFICERS. To the extent permitted by applicable law, the Board may delegate to one or more executive officers of the Company the power to make Options and exercise such other powers under the Plan as the Board may determine, provided that the Board shall fix the maximum number of shares subject to Options and the maximum number of shares for any one Participant to be made by such executive officers.

(c) APPOINTMENT OF COMMITTEES. To the extent permitted by applicable law, the Board may delegate any or all of its powers under the Plan to one or more committees or subcommittees of the Board (a "Committee"). All references in the Plan to the "Board" shall mean the Board or a Committee of the Board or the executive officer referred to in Section 3(b) to the extent that the Board's powers or authority under the Plan have been delegated to such Committee or executive officer.

4. STOCK AVAILABLE FOR OPTIONS

(a) NUMBER OF SHARES. Subject to adjustment under Section 4(c), Options may be made under the Plan for up to 1,000,000 shares of Common Stock, \$.01 par value per share, of the Company (the "Common Stock"). If any Option expires or is terminated, surrendered or canceled without having been fully exercised or is forfeited in whole or in part or results in any Common Stock not being issued, the unused Common Stock covered by such Option shall again be available for the grant of Options under the Plan, subject, however, in the case of Incentive Stock Options (as hereinafter defined), to any limitation required under the Code. Shares issued under the Plan may consist in whole or in part of authorized but unissued shares or treasury shares.

(b) PER-PARTICIPANT LIMIT. Subject to adjustment under Section 4(c), for Options granted after the Common Stock is registered under the Securities Exchange Act of 1934 (the "Exchange Act"), the maximum number of shares with respect to which an Option may be granted to any Participant under the Plan shall be 300,000 per calendar year. The Per-Participant limit described in this Section 4(b) shall be construed and applied consistently with Section 162(m) of the Code.

(c) ADJUSTMENT TO COMMON STOCK. In the event of any stock split, stock dividend, recapitalization, reorganization, merger, consolidation, combination, exchange of shares, liquidation, spin-off or other similar change in capitalization or event, or any distribution to holders of Common Stock other than a normal cash dividend, (i) the number and class of securities available under this Plan, and (ii) the number and class of security and exercise price per share subject to each outstanding Option, shall be appropriately adjusted by the Company (or substituted Options may be granted, if applicable) to the extent the Board shall determine, in good faith, that such an adjustment (or substitution) is necessary and appropriate. If this Section 4(c) applies and Section 6(e)(1) also applies to any event, Section 6(e)(1) shall be applicable to such event, and this Section 4(c) shall not be applicable.

5. STOCK OPTIONS

(a) GENERAL. The Board may grant Options to purchase Common Stock and

determine the number of shares of Common Stock to be covered by each Option, the exercise price of each Option and the conditions and limitations applicable to the exercise of each Option, including conditions relating to applicable federal or state securities laws, as it considers necessary or advisable. An Option which is not intended to be an Incentive Stock Option (as hereinafter defined) shall be designated a "Nonstatutory Stock Option".

(b) INCENTIVE STOCK OPTIONS; STOCKHOLDER APPROVAL REQUIRED. An Option that the Board intends to be an "incentive stock option" as defined in Section 422 of the Code (an "Incentive Stock Option") shall be subject to and shall be construed consistently with the requirements of Section 422 of the Code. Notwithstanding that an Option may be designated by the Board as an Incentive Stock Option, no Option granted under the Plan shall be an Incentive Stock Option unless the Plan is approved by the Company's stockholders within 12 months of the date upon which the Board adopts the Plan. The Company shall have no liability to a Participant, or any other party, if an Option (or any part thereof) which is intended to be an Incentive Stock Option is not an Incentive Stock Option.

(c) EXERCISE PRICE. The Board shall establish the exercise price at the time each Option is granted and specify it in the applicable option agreement.

(d) DURATION OF OPTIONS. Each Option shall be exercisable at such times and subject to such terms and conditions as the Board may specify in the applicable option agreement.

(e) EXERCISE OF OPTION. Options may be exercised only by delivery to the Company of a written notice of exercise signed by the proper person together with payment in full as specified in Section 5(f) for the number of shares for which the Option is exercised.

(f) PAYMENT UPON EXERCISE. Common Stock purchased upon the exercise of an Option granted under the Plan shall be paid for as follows:

- (1) in cash or by check, payable to the order of the Company;
- (2) except as the Board may otherwise provide in an Option, delivery of an irrevocable and unconditional undertaking by a credit worthy broker to deliver promptly to the Company sufficient funds to pay the exercise price, or delivery by the Participant to the Company of a copy of irrevocable and unconditional instructions to a credit worthy broker to deliver promptly to the Company cash or a check sufficient to pay the exercise price;
- (3) to the extent permitted by the Board and explicitly provided in the Option (i) by delivery of shares of Common Stock owned by the Participant valued at their fair market value as determined by the Board in good faith ("Fair Market Value"), which Common Stock was owned by the Participant at least six months prior to such delivery, (ii) by delivery of a promissory note of the Participant to the Company on terms determined by the Board, or (iii) by payment of such other lawful consideration as the Board may determine; or
- (4) any combination of the above permitted forms of payment.

6. GENERAL PROVISIONS APPLICABLE TO OPTIONS

(a) TRANSFERABILITY OF OPTIONS. Except as the Board may otherwise determine or provide in an Option, Options shall not be sold, assigned, transferred, pledged or otherwise encumbered by the person to whom they are granted, either voluntarily or by operation of law, except by will or the laws of descent and distribution, and, during the life of the Participant, shall be exercisable only by the Participant. References to a Participant, to the extent relevant in the context, shall include references to authorized transferees.

(b) DOCUMENTATION. Each Option under the Plan shall be evidenced by a written instrument in such form as the Board shall determine. Each Option may contain terms and conditions in addition to those set forth in the Plan.

(c) BOARD DISCRETION. Except as otherwise provided by the Plan, each type of Option may be made alone in addition or in relation to any other type of Option. The terms of each type of Option need not be identical, and the Board need not treat Participants uniformly.

(d) TERMINATION OF STATUS. The Board shall determine the effect on an Option of the disability, death, retirement, authorized leave of absence or other change in the employment or other status of a Participant and the extent to which, and the period during which, the Participant, the Participant's legal representative, conservator, guardian or Designated Beneficiary may exercise rights under the Option.

(e) ACQUISITION EVENTS

- (1) CONSEQUENCES OF ACQUISITION EVENTS. Upon the occurrence of an Acquisition Event (as defined below), or the execution by the Company of any agreement with respect to an Acquisition Event, the Board shall take any one or more of the following actions with respect to then outstanding Options: (i) provide that outstanding Options shall be assumed, or equivalent Options shall be substituted, by the acquiring or succeeding corporation (or an affiliate thereof), provided that any such Options substituted for Incentive Stock Options shall satisfy, in the determination of the Board, the requirements of Section 424(a) of the Code; (ii) upon written notice to the Participants, provide that all then unexercised Options will become exercisable in full as of a specified date (the "Acceleration Date") prior to the Acquisition Event and will terminate immediately prior to the consummation of such Acquisition Event, except to the extent exercised by the Participants between the Acceleration Date and the consummation of such Acquisition

Event; and (iii) in the event of an Acquisition Event under the terms of which holders of Common Stock will receive upon consummation thereof a cash payment for each share of Common Stock surrendered pursuant to such Acquisition Event (the "Acquisition Price"), provide that all outstanding Options shall terminate upon consummation of such Acquisition Event and each Participant shall receive, in exchange therefor, a cash payment equal to the amount (if any) by which (A) the Acquisition Price multiplied by the number of shares of Common Stock subject to such outstanding Options (whether or not then exercisable), exceeds (B) the aggregate exercise price of such Options. An "Acquisition Event" shall mean: (a) any merger or consolidation which results in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving or acquiring entity) less than 50% of the combined voting power of the voting securities of the Company or such surviving or acquiring entity outstanding immediately after such merger or consolidation; (b) any sale of all or substantially all of the assets of the Company; (c) the complete liquidation of the Company; or (d) the acquisition of "beneficial ownership" (as defined in Rule 13d-3 under the Exchange Act) of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities (other than through a merger or consolidation or an acquisition of securities directly from the Company) by any "person", as such term is used in Sections 13(d) and 14(d) of the Exchange Act other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company.

- (2) ASSUMPTION OF OPTIONS UPON CERTAIN EVENTS. The Board may grant Options under the Plan in substitution for options held by employees of another corporation who become employees of the Company as a result of a merger or consolidation of the employing corporation with the Company or the acquisition by the Company of property or stock of the employing corporation. The substitute Options shall be granted on such terms and conditions as the Board considers appropriate in the circumstances.

(f) WITHHOLDING. Each Participant shall pay to the Company, or make provision satisfactory to the Board for payment of, any taxes required by law to be withheld in connection with Options to such Participant no later than the date of the event creating the tax liability. The Board may allow Participants to satisfy such tax obligations in whole or in part in shares of Common Stock, including shares retained from the Option creating the tax obligation, valued at their Fair Market Value. The Company may, to the extent permitted by law, deduct any such tax obligations from any payment of any kind otherwise due to a Participant.

(g) AMENDMENT OF OPTION. The Board may amend, modify or terminate any outstanding Option, including but not limited to, substituting therefor another Option of the same or a different type, changing the date of exercise or realization, and converting an Incentive Stock Option to a Nonstatutory Stock Option, provided that the Participant's consent to such action shall be required unless the Board determines that the action, taking into account any related action, would not materially and adversely affect the Participant.

(h) CONDITIONS ON DELIVERY OF STOCK. The Company will not be obligated to deliver any shares of Common Stock pursuant to the Plan until (i) all conditions of the Option have been met or removed to the satisfaction of the Company, (ii) in the opinion of the Company's counsel, all other legal matters in connection with the issuance and delivery of such shares have been satisfied, including any applicable securities laws and any applicable stock exchange or stock market rules and regulations, and (iii) the Participant has executed and delivered to the Company such representations or agreements as the Company may consider appropriate to satisfy the requirements of any applicable laws, rules or regulations.

(i) ACCELERATION. The Board may at any time provide that any Options shall become immediately exercisable in full or in part.

7. MISCELLANEOUS

(a) NO RIGHT TO EMPLOYMENT OR OTHER STATUS. No person shall have any claim or right to be granted an Option, and the grant of an Option shall not be construed as giving a Participant the right to continued employment or any other relationship with the Company. The Company expressly reserves the right at any time to dismiss or otherwise terminate its relationship with a Participant free from any liability or claim under the Plan, except as expressly provided in the applicable Option.

(b) NO RIGHTS AS STOCKHOLDER. Subject to the provisions of the applicable Option, no Participant or Designated Beneficiary shall have any rights as a stockholder with respect to any shares of Common Stock to be distributed with respect to an Option until becoming the record holder of such shares.

(c) EFFECTIVE DATE AND TERM OF PLAN. The Plan shall become effective on the date on which it is adopted by the Board, but no Option designated as an Incentive Stock Option shall be an Incentive stock Option unless and until the Plan has been approved by the Company's stockholders within 12 months of the date upon which the Board adopts the Plan. No Options shall be granted under the Plan after the completion of ten years from the date on which the Plan was adopted by the Board but Options previously granted may remain exercisable beyond that date.

(d) AMENDMENT OF PLAN. The Board may amend, suspend or terminate the Plan

or any portion thereof at any time.

(e) GOVERNING LAW. The provisions of the Plan and all Options made hereunder shall be governed by and interpreted in accordance with the laws of the State of Delaware, without regard to any applicable conflicts of law.

AVID TECHNOLOGY, INC.

1996 EMPLOYEE STOCK PURCHASE PLAN

February 12, 1996

The purpose of this Plan is to provide eligible employees of Avid Technology, Inc. (the "Company") and certain of its subsidiaries with opportunities to purchase shares of the Company's common stock, \$.01 par value (the "Common Stock"), commencing on August 1, 1996. Two Hundred Thousand (200,000) shares of Common Stock in the aggregate have been approved for this purpose.

1. ADMINISTRATION. The Plan will be administered by the Company's Board of Directors (the "Board") or by a Committee appointed by the Board (the "Committee"). The Board or the Committee has authority to make rules and regulations for the administration of the Plan and its interpretation and decisions with regard thereto shall be final and conclusive.

2. ELIGIBILITY. Participation in the Plan will neither be permitted nor denied contrary to the requirements of Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"), and regulations promulgated thereunder. All employees of the Company, including Directors who are employees, and all employees of any subsidiary of the Company (as defined in Section 424(f) of the Code) designated by the Board or the Committee from time to time (a "Designated Subsidiary"), are eligible to participate in any one or more of the offerings of Options (as defined in Section 9) to purchase Common Stock under the Plan provided that:

(a) they are regularly employed by the Company or a Designated Subsidiary for more than 20 hours a week and for more than five months in a calendar year; and

(b) they have been employed by the Company or a Designated Subsidiary for at least three months prior to enrolling in the Plan; and

(c) they are employees of the Company or a Designated Subsidiary on the first day of the applicable Plan Period (as defined below).

No employee may be granted an option hereunder if such employee, immediately after the option is granted, owns 5% or more of the total combined voting power or value of the stock of the Company or any subsidiary. For purposes of the preceding sentence, the attribution rules of Section 424(d) of the Code shall apply in determining the stock ownership of an employee, and all stock which the employee has a contractual right to purchase shall be treated as stock owned by the employee.

3. OFFERINGS. The Company will make one or more offerings ("Offerings") to employees to purchase stock under this Plan. Offerings will begin each August 1 and February 1, or the first business day thereafter (the "Offering Commencement Dates"). Each Offering Commencement Date will begin a six month period (a "Plan Period") during which payroll deductions will be made and held for the purchase of Common Stock at the end of the Plan Period. The Board or the Committee may, at its discretion, choose a different Plan Period of twelve (12) months or less for subsequent Offerings.

4. PARTICIPATION. An employee eligible on the Offering Commencement Date of any Offering may participate in such Offering by completing and forwarding a payroll deduction authorization form to the employee's appropriate payroll office at least 30 days prior to the applicable Offering Commencement Date. The form will authorize a regular payroll deduction from the Compensation received by the employee during the Plan Period. Unless an employee files a new form or withdraws from the Plan, his deductions and purchases will continue at the same rate for future Offerings under the Plan as long as the Plan remains in effect. The term "Compensation" means the amount of money reportable on the employee's Federal Income Tax Withholding Statement, excluding overtime, shift premium, incentive or bonus awards, allowances and reimbursements for expenses such as relocation allowances for travel expenses, income or gains on the exercise of Company stock options or stock appreciation rights, and similar items, whether or not shown on the employee's Federal Income Tax Withholding Statement, but including, in the case of salespersons, sales commissions to the extent determined by the Board or the Committee.

5. DEDUCTIONS. The Company will maintain payroll deduction accounts for all participating employees. With respect to any Offering made under this Plan, an employee may authorize a payroll deduction in any dollar amount up to a maximum of ten percent (10%) of the Compensation he or she receives during the Plan Period or such shorter period during which deductions from payroll are made. The Board or the Committee may set a minimum payroll deduction requirement.

No employee may be granted an Option (as defined in Section 9) which permits his rights to purchase Common Stock under this Plan and any other stock purchase plan of the Company and its subsidiaries, to accrue at a rate which exceeds \$25,000 of the fair market value of such Common Stock (determined at the Offering Commencement Date of the Plan Period) for each calendar year in which the Option is outstanding at any time.

6. DEDUCTION CHANGES. An employee may decrease or discontinue his payroll deduction once during any Plan Period, by filing a new payroll deduction authorization form. However, an employee may not increase his payroll deduction during a Plan Period. If an employee elects to discontinue his payroll deductions during a Plan Period, but does not elect to withdraw his funds pursuant to Section 8 hereof, funds deducted prior to his election to

discontinue will be applied to the purchase of Common Stock on the Exercise Date (as defined below).

7. INTEREST. Interest will not be paid on any employee accounts, except to the extent that the Board or the Committee, in its sole discretion, elects to credit employee accounts with interest at such per annum rate as it may from time to time determine.

8. WITHDRAWAL OF FUNDS. An employee may at any time prior to the close of business on the last business day in a Plan Period and for any reason permanently draw out the balance accumulated in the employee's account and thereby withdraw from participation in an Offering. Partial withdrawals are not permitted. The employee may not begin participation again during the remainder of the Plan Period. The employee may participate in any subsequent Offering in accordance with terms and conditions established by the Board or the Committee, except that employees who are also directors or officers of the Company within the meaning of Section 16 of the Securities Exchange Act of 1934 (the "Exchange Act") and the rules promulgated thereunder may not participate again for a period of at least six months as provided in Rule 16b-3(d)(2)(i) or any successor provision.

9. PURCHASE OF SHARES. On the Offering Commencement Date of each Plan Period, the Company will grant to each eligible employee who is then a participant in the Plan an option ("Option") to purchase on the last business day of such Plan Period (the "Exercise Date"), at the Option Price hereinafter provided for, such number of whole shares of Common Stock of the Company reserved for the purposes of the Plan as does not exceed the number of shares determined by dividing six percent (6%) of such employee's annualized Compensation for the immediately prior six-month period by the price determined in accordance with the formula set forth in the following paragraph but using the closing price on the Offering Commencement Date of such Plan Period.

The purchase price for each share purchased will be 85% of the closing price of the Common Stock on (i) the first business day of such Plan Period or (ii) the Exercise Date, whichever closing price shall be less. Such closing price shall be (a) the closing price on any national securities exchange on which the Common Stock is listed, (b) the closing price of the Common Stock on the Nasdaq National Market or (c) the average of the closing bid and asked prices in the over-the-counter market, whichever is applicable, as published in THE WALL STREET JOURNAL. If no sales of Common Stock were made on such a day, the price of the Common Stock for purposes of clauses (a) and (b) above shall be the reported price for the next preceding day on which sales were made.

Each employee who continues to be a participant in the Plan on the Exercise Date shall be deemed to have exercised his Option at the Option Price on such date and shall be deemed to have purchased from the Company the number of full shares of Common Stock reserved for the purpose of the Plan that his accumulated payroll deductions on such date will pay for pursuant to the formula set forth above (but not in excess of the maximum number determined in the manner set forth above).

Any balance remaining in an employee's payroll deduction account at the end of a Plan Period will be automatically refunded to the employee, except that any balance which is less than the purchase price of one share of Common Stock will be carried forward into the employee's payroll deduction account for the following Offering, unless the employee elects not to participate in the following Offering under the Plan, in which case the balance in the employee's account shall be refunded.

10. ISSUANCE OF CERTIFICATES. Certificates representing shares of Common Stock purchased under the Plan may be issued only in the name of the employee, in the name of the employee and another person of legal age as joint tenants with rights of survivorship, or (in the Company's sole discretion) in the street name of a brokerage firm, bank or other nominee holder designated by the employee.

11. RIGHTS ON RETIREMENT, DEATH OR TERMINATION OF EMPLOYMENT. In the event of a participating employee's termination of employment prior to the last business day of a Plan Period, no payroll deduction shall be taken from any pay due and owing to an employee and the balance in the employee's account shall be paid to the employee or, in the event of the employee's death, (a) to a beneficiary previously designated in a revocable notice signed by the employee (with any spousal consent required under state law) or (b) in the absence of such a designated beneficiary, to the executor or administrator of the employee's estate or (c) if no such executor or administrator has been appointed to the knowledge of the Company, to such other person(s) as the Company may, in its discretion, designate. If, prior to the last business day of the Plan Period, the Designated Subsidiary by which an employee is employed shall cease to be a subsidiary of the Company, or if the employee is transferred to a subsidiary of the Company that is not a Designated Subsidiary, the employee shall be deemed to have terminated employment for the purposes of this Plan.

12. OPTIONEES NOT STOCKHOLDERS. Neither the granting of an Option to an employee nor the deductions from his pay shall constitute such employee a stockholder of the shares of Common Stock covered by an Option under this Plan until such shares have been purchased by and issued to him.

13. RIGHTS NOT TRANSFERABLE. Rights under this Plan are not transferable by a participating employee other than by will or the laws of descent and distribution, and are exercisable during the employee's lifetime only by the employee.

14. APPLICATION OF FUNDS. All funds received or held by the Company under this Plan may be combined with other corporate funds and may be used for any corporate purpose.

15. ADJUSTMENT IN CASE OF CHANGES AFFECTING COMMON STOCK. In the event of a subdivision of outstanding shares of Common Stock, or the payment of a

dividend in Common Stock, the number of shares approved for this Plan, and the share limitation set forth in Section 9, shall be increased proportionately, and such other adjustment shall be made as may be deemed equitable by the Board or the Committee. In the event of any other change affecting the Common Stock, such adjustment shall be made as may be deemed equitable by the Board or the Committee to give proper effect to such event.

16. MERGER. If the Company shall at any time merge or consolidate with another corporation and the holders of the capital stock of the Company immediately prior to such merger or consolidation continue to hold at least 80% by voting power of the capital stock of the surviving corporation ("Continuity of Control"), the holder of each Option then outstanding will thereafter be entitled to receive at the next Exercise Date upon the exercise of such Option for each share as to which such Option shall be exercised the securities or property which a holder of one share of the Common Stock was entitled to upon and at the time of such merger, and the Committee shall take such steps in connection with such merger as the Committee shall deem necessary to assure that the provisions of Paragraph 15 shall thereafter be applicable, as nearly as reasonably may be, in relation to the said securities or property as to which such holder of such Option might thereafter be entitled to receive thereunder.

In the event of a merger or consolidation of the Company with or into another corporation which does not involve Continuity of Control, or of a sale of all or substantially all of the assets of the Company while unexercised Options remain outstanding under the Plan, (a) subject to the provisions of clauses (b) and (c), after the effective date of such transaction, each holder of an outstanding Option shall be entitled, upon exercise of such Option, to receive in lieu of shares of Common Stock, shares of such stock or other securities as the holders of shares of Common Stock received pursuant to the terms of such transaction; or (b) all outstanding Options may be cancelled by the Board or the Committee as of a date prior to the effective date of any such transaction and all payroll deductions shall be paid out to the participating employees; or (c) all outstanding Options may be cancelled by the Board or the Committee as of the effective date of any such transaction, provided that notice of such cancellation shall be given to each holder of an Option, and each holder of an Option shall have the right to exercise such Option in full based on payroll deductions then credited to his account as of a date determined by the Board or the Committee, which date shall not be less than ten (10) days preceding the effective date of such transaction.

17. AMENDMENT OF THE PLAN. The Board may at any time, and from time to time, amend this Plan in any respect, except that (a) if the approval of any such amendment by the shareholders of the Company is required by Section 423 of the Code or by Rule 16b-3 under the Exchange Act, such amendment shall not be effected without such approval, and (b) in no event may any amendment be made which would cause the Plan to fail to comply with Section 16 of the Exchange Act and the rules promulgated thereunder, as in effect from time to time, or Section 423 of the Code.

18. INSUFFICIENT SHARES. In the event that the total number of shares of Common Stock specified in elections to be purchased under any Offering plus the number of shares purchased under previous Offerings under this Plan exceeds the maximum number of shares issuable under this Plan, the Board or the Committee will allot the shares then available on a pro rata basis.

19. TERMINATION OF THE PLAN. This Plan may be terminated at any time by the Board. Upon termination of this Plan all amounts in the accounts of participating employees shall be promptly refunded.

20. GOVERNMENTAL REGULATIONS. The Company's obligation to sell and deliver Common Stock under this Plan is subject to listing on a national stock exchange or quotation on the Nasdaq National Market and the approval of all governmental authorities required in connection with the authorization, issuance or sale of such stock. The Plan shall be governed by Delaware law except to the extent that such law is preempted by federal law. The Plan is intended to comply with the provisions of Rule 16b-3 promulgated under the Securities Exchange Act of 1934. Any provision inconsistent with such Rule shall to that extent be inoperative and shall not affect the validity of the Plan.

21. ISSUANCE OF SHARES. Shares may be issued upon exercise of an Option from authorized but unissued Common Stock, from shares held in the treasury of the Company, or from any other proper source.

22. NOTIFICATION UPON SALE OF SHARES. Each employee agrees, by entering the Plan, to promptly give the Company notice of any disposition of shares purchased under the Plan where such disposition occurs within two years after the date of grant of the Option pursuant to which such shares were purchased.

23. EFFECTIVE DATE AND APPROVAL OF SHAREHOLDERS. The Plan shall take effect on February 12, 1996 subject to approval by the shareholders of the Company as required by Rule 16b-3 under the Exchange Act and by Section 423 of the Code, which approval must occur within twelve months of the adoption of the Plan by the Board.

Adopted by the Board of Directors
on February 12, 1996

Approved by the stockholders on
June 5, 1996

AVID TECHNOLOGY, INC.
1998 PROFIT SHARING PLAN DESCRIPTION

PURPOSE OF THE PLAN

The purpose of the Profit Sharing Plan is to reward all Avid employees for improving Company performance as measured by Return on Invested Capital (ROIC).

ELIGIBILITY TO PARTICIPATE IN THE PLAN

All regular Avid employees who are not already covered by a sales commission plan or the Executive Variable Compensation Plan are eligible to participate. Employees hired after January 1, 1998 but before October 1, 1998 are eligible to participate on a prorated basis. Employees hired on or after October 1, 1998 will be eligible to participate in the Plan beginning January 1, 1999. Temporary employees are excluded from the Plan. However, if a temporary employee transfers to a regular position prior to October 1, 1998, he/she will participate on a prorated basis. Rehires will be treated as new employees under the Plan.

OPERATION OF THE PLAN

At target performance the Plan pays a percentage of the 1998 base salary which has been paid to participants during the year while a Plan participant. This includes vacation, personal time, sick time, and holiday time BUT NOT overtime, shift differential, or other premium pay. The Plan pays more for performance above target.

Performance is measured by Avid's 1998 ROIC. In 1998 Avid's ROIC performance will be evaluated against a peer group of other publicly-traded high technology companies. The Standard & Poor's High Technology Composite will comprise this peer group. The 1998 Plan target award is set at a percentile ROIC of the peer group selected by the Board of Directors.

WHAT IS ROIC?

ROIC is calculated as shown below:

$$\text{ROIC} = \frac{\text{OPERATING INCOME}}{\text{Total Non-Cash Assets MINUS Interest-Bearing Debt}}$$

Operating Income (the numerator) is defined as profit from operations.

Invested Capital (the denominator) is defined as total assets less cash and debt.

CHANGES IN STATUS

Individual awards will be prorated under the following circumstances:

- 1) Any salary changes throughout the year are automatically prorated since Profit Sharing is calculated on the actual base salary paid during 1998.
- 2) If a participant is hired after January 1, his/her Profit Sharing will be automatically prorated for that portion of the fiscal year worked for Avid since it will be calculated on actual base salary paid during 1998. For example, if the participant is hired July 1, 1998, his/her Profit Sharing will be based on a half a year's base salary.
- 3) If a participant transfers from a temporary to a regular position before October 1, 1998, his/her Profit Sharing will be calculated on the base salary paid after transferring to the regular position.
- 4) If a participant is on an approved leave of absence for a portion of 1998, his/her Profit Sharing will be calculated on the base salary paid during the year. This has the effect of prorating the award for any portion of the leave which was unpaid.
- 5) If a participant becomes disabled and qualifies for benefits under Avid's long-term disability plan, his/her Profit Sharing award will be calculated on the base salary paid while on the Avid payroll as an employee.
- 6) If a participant is laid off by Avid, the Profit Sharing award will be calculated on the base salary paid through the effective employment termination date. In this case, the payout may not exceed 100% of the prorated target award.
- 7) If a participant dies while in Avid employment, the Profit Sharing award will be calculated on the base salary paid prior to date of death. The award will be paid to the surviving spouse, or if none, to the estate.

TIMING OF PLAN PAYOUT

The Plan payout will be determined after audited financial results for 1998 are determined and publicly released, near the end of January 1999. Plan payout is expected to occur in February. Employees must be employed by Avid at the time of actual Plan payout to receive their Plan award, unless eligible for a prorated

award as described above. Employees who are on approved leave of absence at the time of actual Plan payout will be considered to be employed for this purpose.

CHANGES TO THE PLAN

The Company reserves the right at its sole discretion to modify, amend, revoke, or suspend the Plan at any time

This is a Plan summary and is not intended to be and shall not be interpreted as an employment contract.

EMPLOYMENT AGREEMENT

November 10, 1997

CONFIDENTIAL

William J. Miller
 c/o Avid Technology, Inc.
 Metropolitan Technology Park
 One Park West
 Tewksbury, MA 01876

Dear Bill:

Continuity of management of Avid Technology, Inc. ("Avid") is a critical factor to the continued growth and success of Avid. The Avid Board of Directors believes that it is in the best interest of the Company to reinforce and encourage the continued attention and dedication of key members of management to their assigned duties.

In consideration of the mutual promises contained in this letter, it is hereby agreed that Avid shall provide to you, and that you shall receive from Avid, the benefits set forth in this letter (the "Agreement") if your employment with Avid, and its subsidiaries, is terminated during the term of this Agreement.

1. PURPOSE

This Agreement establishes certain special arrangements relating to the termination of your employment with Avid for any reason other than: (i) your becoming totally and permanently disabled under the Avid long-term disability plan or policy, or (ii) your death.

2. TERM OF AGREEMENT

This Agreement shall become effective on the date hereof (the "Effective Date") and shall terminate one year thereafter. The term shall be automatically extended for successive one-year periods after the first anniversary, unless 30 days' advance written notice is given by you or by Avid terminating this Agreement as of any anniversary date.

3. TERMINATION OF EMPLOYMENT

Your employment may be terminated in accordance with any of the following paragraphs, but only upon one (1) month's advance written notice (which period shall be referred to in this Agreement as the "Notice Period"). The expiration of the Notice Period shall be your "Date of Termination."

(a) INVOLUNTARY TERMINATION WITHOUT CAUSE. Avid may terminate your employment without Cause (as defined below). In such an event, you shall continue to receive your full base salary during the Notice Period. Upon your Date of Termination, you shall be entitled to those benefits provided under Section 4.

(b) INVOLUNTARY TERMINATION FOR CAUSE. Avid may terminate your employment for "Cause" by written notice setting forth the Cause for termination. "Cause" means a willful engaging in gross misconduct materially and demonstrably injurious to Avid or the willful and continued failure by you substantially to perform your duties with the Company (other than any such failure resulting from your incapacity due to physical or mental illness) after a written demand for substantial performance is delivered to you by the Board of Directors which specifically identifies the manner in which the Board believes that you have not substantially performed your duties. "Willful" means an act or omission in bad faith and without reasonable belief that such act or omission was in or not opposed to the best interests of Avid. Upon your Date of Termination, you shall be entitled only to those benefits provided under Section 5.

(c) VOLUNTARY TERMINATION WITHOUT GOOD REASON. You may voluntarily terminate your employment without Good Reason (as defined below). In such an event, you shall continue to receive your full base salary and Employment Benefits during the Notice Period provided you satisfactorily perform your duties during the Notice Period, unless you are relieved of those duties by Avid. Upon your Date of Termination, you shall be entitled only to those benefits provided under Section 5.

(d) VOLUNTARY TERMINATION WITH GOOD REASON. You may voluntarily terminate your employment with Good Reason. "Good Reason" shall mean a significant diminution in your duties or responsibilities or any acquisition of Avid that results in your no longer serving as Chief Executive Officer of an independent public company. In such an event, you shall continue to receive your full base salary and Employment Benefits during the Notice Period, provided you satisfactorily perform your duties during the Notice Period, unless you are relieved of those duties by Avid. Upon your Date of Termination, you shall be entitled to those benefits provided under Section 4.

4. SPECIAL SEVERANCE BENEFITS

If your employment with Avid is involuntarily terminated by Avid without Cause pursuant to Section 3(a) or by you for Good Reason pursuant to Section 3(d), then you shall receive the following benefits as long as you continue to comply with your obligations under Section 8 of this Agreement and any Invention and Nondisclosure Agreement (or similar agreement) between you and the Company:

(a) Your base salary shall be continued in effect for a period of twelve (12) months from your Date of Termination (hereinafter called your "Severance Pay Period"). Avid will also pay you, during the thirteenth through twenty-fourth months following termination, on a semi-monthly basis, the amount by which your monthly base salary at the Date of Termination exceeds your monthly compensation from your new employer;

(b) You will receive incentive compensation payments in an aggregate amount equal to your target award for the calendar year immediately preceding the calendar year in which your Date of Termination occurs, payable in equal semi-monthly installments during the 12 months following the Date of Termination. You shall have no right to any pro-rated incentive compensation in respect of the year of termination;

(c) Notwithstanding any provision to the contrary in any Avid stock plan, or under the terms of any grant, award agreement or form for exercising any right under any such plan, any stock options or restricted stock awards held by you as of the Date of Termination shall become exercisable or vested, as the case may be, as to an additional number of shares equal to the number that would have been exercisable or vested as of the end of the 12 month period immediately following the Date of Termination. Nothing in this Agreement shall be construed to extend the time period within which any option may be exercised beyond the period specified in the applicable stock plan or under the terms of any grant, award agreement or form for exercising any right under any such plan;

(d) During the Severance Pay Period, in the event you elect to continue to participate in the Company's medical and dental plans to the extent permitted under COBRA, the Company shall pay the cost of such participation;

(e) You shall be entitled to full executive outplacement assistance with an agency selected by Avid; and

(f) If you do not find employment in Massachusetts following such termination, Avid shall reimburse you for relocation expenses back to California or Minnesota, as you may elect.

5. BENEFITS UPON VOLUNTARY TERMINATION WITHOUT GOOD REASON OR TERMINATION FOR CAUSE.

Upon your termination for Cause in accordance with Section 3(b) or your termination without Good Reason in accordance with Section 3(c), all benefits under this Agreement will be void. In such an event, you shall be eligible for the benefits (if any) provided in accordance with the plans and policies of Avid which are then applicable to employees of Avid generally.

6. CONFIDENTIALITY.

The provisions of the Employee Invention and Non-Disclosure Agreement between you and Avid shall continue in full force and effect following any termination of employment.

7. RELATIONSHIP TO CHANGE-IN-CONTROL AGREEMENT, ETC.

(a) In the event you become entitled to any benefits under any Change-in-Control Employment Agreement between you and Avid, such Change-in-Control Employment Agreement shall control and this Agreement shall be void and of no further force or effect.

(b) Except as expressly set forth in Section 7(a), this Agreement supersedes all prior agreements with Avid related to the subject matter hereof (including all provisions of the letter agreement dated April 3, 1996 other than Sections 5(a), 5(b) and the language of Section 7 through and including clause (i) thereof, which shall survive), and the special severance benefits provided under this Agreement are to be provided instead of any other Avid severance arrangements. Avid's severance policies and practices are superseded except to the extent incorporated herein. Notwithstanding the foregoing, nothing contained in this Agreement shall have any affect upon your rights under any tax qualified "pension benefit plan", as such term is defined in the Employee Retirement Income Security Act of 1974, as amended (ERISA); or any other "welfare benefit plan" as defined in ERISA, including by way of illustration and not limitation, any medical surgical or hospitalization benefit coverage or long-term disability benefit coverage; or under any deferred compensation or equity incentive arrangement, including by way of illustration and not limitation, any stock incentive plan, non-qualified pension plan, or phantom stock plan.

8. COVENANT NOT TO COMPETE AND NOT TO SOLICIT.

(a) During the term of this Agreement, and for a period of two (2) years following the termination of your employment for any reason, you agree you will not engage in any business (whether as an owner, partner, officer, director, employee, consultant or otherwise, except as the holder of not more than 1% of the outstanding stock of a publicly-held company) that competes or plans to compete with Avid in the business of the development, manufacture, promotion, distribution or sale of digital film, video or audio editing, special effects or newsroom automation systems or products or any other business in which Avid is engaged or plans to engage at the time of your termination. Without limiting the foregoing, during such period you shall not be employed by or otherwise serve as a consultant to Abekas, Accom, Adobe, Carlton Communications, Chyron, Data Translation, Discreet Logic, DVisioN, FAST Technology, Hewlett-Packard, Immix, InSync, Kodak, Lightworks, Macromedia, Matrox, Media 100, MetacreatioNs, MGI, Newsmaker, Newstar, Panasonic/Matsushita, Philips, Pinnacle Systems, Play

Systems, Pluto Technologies International, Progressive Networks, Quantel, SADIE, Scitex, Sonic Solutions, SONY, Softimage/Microsoft, Tektronix, Transoft, Truevision, VDONet or VXtreme, or any of their subsidiaries and affiliates.

(b) You also agree that, for a period of two (2) years from the date of your termination, you will not, either directly or indirectly through an agency, new employer or otherwise, solicit the employment of (or solicit to engage as an independent contractor or consultant) any person who at any time during the one year preceding such solicitation was an employee or independent contractor of Avid or any Avid affiliate.

(c) If any restriction in this Section 8 is found by any court of competent jurisdiction to be unenforceable because it extends for too long a period of time or over too great a range of activities or in too broad a geographic area, it shall be interpreted to extend only over the maximum period of time, range of activities or geographic area as to which it may be enforceable.

(d) The restrictions contained in this Section 8 are necessary for the protection of the business and good will of Avid and are considered by you to be reasonable for such purpose. You agree that any breach of this Section 8 will cause Avid substantial and irrevocable damage and, therefore, in the event of any such breach, in addition to such other remedies which may be available, Avid shall have the right to seek specific performance and injunctive relief.

9. NOTICE.

Notice required or permitted under this Agreement shall be in writing and shall be deemed to have been given when delivered or mailed by the United States certified mail, return receipt requested, postage prepaid, in a properly addressed envelope. Notices to Avid shall be addressed to the Corporate Secretary.

10. MODIFICATION; SUCCESSORS.

No provision of this Agreement may be waived, modified, or discharged except pursuant to a written instrument signed by you and Avid. This agreement is binding upon any successor to all or substantially all business or assets of Avid.

11. INDEMNIFICATION.

The Company will indemnify you to the extent set forth in the Certificate of Incorporation and By-laws of the Company for all acts or omissions occurring during the period of your employment.

12. VALIDITY; COUNTERPARTS

This agreement shall be governed by and construed under the laws of the Commonwealth of Massachusetts. The validity or enforceability of any provision hereof shall not affect the validity or enforceability of any other provision hereof. This Agreement may be executed in one or more counterparts, each of which together will constitute one and the same instrument.

Accepted and Agreed
as of November 10, 1997

Sincerely,
Avid Technology, Inc.

/S/ William J. Miller

William J. Miller

By: /S/ Judith Oppenheim

Name: Judith Oppenheim
Title: Sr. Vice President - Human Resources

November 10, 1997

Mr. William J. Miller
Chief Executive Officer
Avid Technology, Inc.
Metropolitan Technology Park
One Park West
Tewksbury, MA 01876

The Board of Directors (the "Board") of Avid Technology, Inc. ("Avid" or the "Company") recognizes that your contributions to the past and future growth and success of the Company have been and will be substantial and the Board desires to assure the Company of your continued services for the benefit of the Company, particularly in the face of a change-in-control of the Company.

This letter agreement ("Agreement") therefore sets forth those benefits which the Company will provide to you in the event your employment within the Company is terminated after a "Change in Control of the Company" (as defined in Paragraph 2 (i)) under the circumstances described below.

1. TERM.

If a Change in Control of the Company should occur while you are still an employee of the Company, then this Agreement shall continue in effect from the date of such Change in Control of the Company for so long as you remain an employee of the Company, but in no event for more than two full calendar years following such Change in Control of the Company; provided, however, that the expiration of the term of this Agreement shall not adversely affect your rights under this Agreement which have accrued prior to such expiration. If no Change in Control of the Company occurs before your status as an employee of the Company is terminated, this Agreement shall expire on such date. Prior to a Change in Control of the Company, your employment may be terminated by the Company with or without Cause (as defined in Paragraph 3(ii)), and/or this Agreement may be terminated by the Company, at any time upon written notice to you and, in either or both such events, you shall not be entitled to any of the benefits provided hereunder; provided, however, that the Company may not terminate this Agreement following the occurrence of a Potential Change in Control of the Company (as defined in Paragraph 2(ii)) unless (a) at least one year has expired since the most recent event or transaction constituting a Potential Change in Control of the Company and (b) in respect of a Potential Change in Control of the Company which previously occurred, no facts or circumstances continue to exist which, if initially occurring at the time any termination of this Agreement is to occur, would constitute a Potential Change in Control of the Company.

2. CHANGE IN CONTROL; POTENTIAL CHANGE IN CONTROL.

(i) For purposes of this Agreement, a "Change in Control of the Company" shall be deemed to have occurred only if any of the following events occur:

(a) The acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either (i) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change of Control: (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (D) any acquisition by any corporation pursuant to a transaction which satisfies the criteria set forth in clauses (A), (B) and (C) of subparagraph (c) of this Paragraph 2(i); or

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

(c) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more

than 50% of, respectively, the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, of the corporation resulting from such Business Combination (which as used in this Paragraph 2(i)(c) shall include, without limitation, a corporation which as a result of such transaction owns all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be and (B) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination, or the combined voting power of the then-outstanding voting securities of such corporation.

(ii) For purposes of this Agreement, a "Potential Change in Control of the Company" shall be deemed to have occurred if (A) the Company shall enter into an agreement, the consummation of which would result in the occurrence of a Change in Control of the Company, or (B) any person shall publicly announce an intention to take or to consider taking actions which if consummated would constitute a Change in Control of the Company, or (C) the Company shall receive any written communication from any third party or third parties, acting as principal or as authorized representative of a disclosed principal, which is publicly disclosed and proposes (or indicates a desire to engage in discussions relating to the possibility of or with a view toward) a transaction the consummation of which would result in the occurrence of a Change in Control of the Company, or (D) any Person other than the Company or a subsidiary thereof or any employee benefit plan sponsored by the Company or a subsidiary thereof or a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock in the Company, shall (I) become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), (II) disclose directly or indirectly to the Company or publicly a plan or intention to become the beneficial owner or (E) any Person described in clause (D) above who becomes the beneficial owner, directly or indirectly, of voting shares representing 20.0% or more of the combined voting power of the Outstanding Company Voting Securities shall increase his beneficial ownership of such securities by 5% or more over the percentage acquired in the transaction which previously gave rise to the occurrence of a Potential Change in Control of the Company. Notwithstanding the foregoing, any event or transaction which would otherwise constitute a Potential Change in Control of the Company shall not constitute a Potential Change in Control of the Company if the negotiations or other actions leading to such event or transaction were initiated by the Company (it being understood that the occurrence of such a Company-initiated event or transaction shall not affect the existence of any Potential Change in Control of the Company resulting from any other event or transaction).

3. TERMINATION FOLLOWING CHANGE IN CONTROL.

If a Change in Control of the Company shall have occurred while you are still an employee of the Company, you shall be entitled to the payments and benefits provided in Paragraph 4 hereof upon the subsequent termination of your employment within two (2) full calendar years of such Change in Control, by you or by the Company unless such termination is (a) because of your death or "Disability", (b) by the Company for "Cause" (as defined below), or (c) by you other than for "Good Reason" (as defined below), in any of which events you shall not be entitled to receive benefits under this Agreement.

(i) "DISABILITY". If, as a result of your incapacity due to physical or mental illness, you shall have been deemed "disabled" by the institution appointed by the Company to administer the Company's Long-Term Disability Plan (or successor plan) because you shall have been absent from your duties with the Company on a full-time basis for six months and shall not have returned to full-time performance of your duties within thirty days after written notice is given you, the Company may terminate your employment for Disability.

(ii) "CAUSE". For the purposes of this Agreement, the Company shall have "Cause" to terminate your employment only upon

(A) the willful and continued failure by you substantially to perform your duties with the Company (other than any such failure resulting from your incapacity due to physical or mental illness or any failure resulting from your terminating your employment with the Company for "Good Reason" (as defined below)) after a written demand for substantial performance is delivered to you by the Board which specifically identifies the manner in which the Board believes that you have not substantially performed your duties, or

(B) the willful engaging by you in gross misconduct materially and demonstrably injurious to the Company.

For purposes of this paragraph, no act, or failure to act, on your part shall be considered "willful" unless done, or omitted to be done, by you not in good faith and without reasonable belief that your action or omission was in the best interests of the Company. Notwithstanding the foregoing, you shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for that purpose (after at least 20 days prior notice to you and an

opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you failed to perform your duties or engaged in misconduct as set forth in clause (A) or (B) of this Paragraph 3(ii) and that you did not correct such failure or cease such misconduct after being requested to do so by the Board.

(iii) "GOOD REASON". You may terminate your employment for Good Reason. For purpose of this Agreement, "Good Reason" shall mean:

(A) the assignment to you of any duties materially inconsistent with, or any material diminution of, your positions, duties, responsibilities, and status with the Company immediately prior to a Change in Control of the Company, or a material change in your titles or offices as in effect immediately prior to a Change in Control of the Company, or any removal of you from, or any failure to reelect you to, any such positions;

(B) a reduction by the Company in your base salary in effect immediately prior to a Change in Control of the Company or a failure by the Company to increase your base salary (within fifteen months of your last increase) in an amount which is substantially similar, on a percentage basis, to the average percentage increase in base salary for all officers of the Company during the twelve months preceding your increase;

(C) the failure by the Company to continue in effect any life insurance, health or accident or disability plan in which you are participating or are eligible to participate at the time of a Change in Control of the Company (or plans providing you with substantially similar benefits), except as otherwise required in terms of such plans as in effect at the time of any Change in Control of the Company or the taking of any action by the Company which would adversely affect your participation in or materially reduce your benefits under any of such plans or deprive you of any material fringe benefits enjoyed by you at the time of a Change in Control of the Company or the failure by the Company to provide you with the number of paid vacation days to which you are entitled in accordance with the vacation policies of the Company in effect at the time of a Change in Control of the Company;

(D) the failure by the Company to (i) continue in effect any material incentive or variable compensation plan in which you participate immediately prior to the Change of Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, (ii) continue your participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of your participation relative to other participants, as existed at the time of the Change of Control or (iii) award cash bonuses to you in amounts and in a manner substantially consistent with past practice in light of the Company's financial performance;

(E) any requirement by the Company that (i) the location of which you perform your principal duties for the Company be changed to a new location that is more than 45 miles from the location at which you perform your principal duties for the Company at the time of the Change in Control of the Company or (ii) you are required to travel on an overnight basis to a significantly greater extent than you were required to so travel prior to the Change in Control of the Company;

(F) any material breach by the Company of any provision of this Agreement (including, without limitation, Paragraph 6), which is not cured within 30 days after written notice thereof; or

(G) any purported termination of your employment by the Company which is not effected pursuant to a Notice of Termination satisfying the requirements of subparagraph (iv) below (and, if applicable, subparagraph (ii) above); and for purposes of this Agreement, no such purported termination shall be effective.

(iv) NOTICE OF TERMINATION. Any termination by the Company pursuant to subparagraphs (i) or (ii) above or by you pursuant to subparagraph (iii) above shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your termination under the provision so indicated.

(v) DATE OF TERMINATION. "Date of Termination" shall mean:

(A) if this Agreement is terminated for Disability, thirty days after Notice of Termination is given (provided that you shall not have returned to the performance of your duties on a full-time basis during such thirty-day period),

(B) if your employment is terminated pursuant to subparagraph (iii) above, the date specified in the Notice of Termination, and

(C) if your employment is terminated for any other reason, the date on which a Notice of Termination is given (or, if a Notice of Termination is not given, the date of such termination).

(i) If, after a Change in Control of the Company, you shall fail to perform your duties hereunder as a result of incapacity due to physical or mental illness, you shall continue to receive your full base salary twice a month at the rate then in effect and any awards under the Executive/Senior Management Variable Compensation Plan or any successor plan shall continue to accrue and to be paid during such period until your employment is terminated (and, if the Company maintains a Long Term Disability Plan, you shall be eligible for coverage thereunder in accordance with the terms thereof and subject to the satisfaction of all applicable conditions, including without limitation, the timely filing of a notice of claim); provided, however, in the event the Company makes no interim individual accruals for the Executive/Senior Management Variable Compensation Plan or any successor plan in respect of any period for which no award has been made under such Plan because of such termination of this Agreement or of employment, you shall receive payment in the amount equal to the product of (a) the amount awarded to you under such Plan or any successor plan during the period most recently ended, multiplied by (b) a fraction (hereinafter the "Partial Service Fraction"), the numerator of which is the whole and partial months of service completed in the current period, and the denominator of which is the number of months in the period most recently ended for which an award was made.

(ii) If, after a Change in Control of the Company, your employment shall be terminated for Cause, the Company shall pay you for your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given and the Company shall have no further obligations to you under this Agreement.

(iii) If, within two years after a Change in Control of the Company, the Company shall terminate your employment, other than pursuant to Paragraph 3(i) or 3(ii) hereof or by reason of death, or you shall terminate your employment for Good Reason,

(A) The Company shall pay you as severance pay (and without regard to the provisions of any benefit plan) in a lump sum in cash on the fifth day following the Date of Termination, the following amounts:

(x) your accrued but unpaid base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus an amount equal to the amount, if any, of any incentive compensation awards which have not been paid but which have been earned by you under the Executive/Senior Management Variable Compensation Plan or any successor plan (including awards which have been deferred, except to the extent such awards have been transferred, prior to a Change in Control of the Company, by the Company to a trustee in an irrevocable trust) it being understood that you shall have earned in each year for which an award shall be payable an amount equal to the product of (a) the amount awarded you under such Plan or any successor plan during the period most recently ended, multiplied by (b) the Partial Service Fraction; and

(y) an amount equal to the sum of your annual base salary at the highest rate in effect during the twelve (12) month period immediately preceding the Date of Termination plus two times the amount of the highest award to you under the Executive/Senior Management Variable Compensation Plan or any successor plan during the twenty-four (24) month period ended on the Date of Termination.

(B) For a twenty-four (24) month period after such termination, the Company shall arrange to provide you with life, dental, accident and group health insurance benefits substantially similar to those that you were receiving immediately prior to such termination to the extent that the Company's plans then permit the Company to provide you with such benefits. Notwithstanding the foregoing, the Company shall not provide any such benefits to you to the extent that an equivalent benefit is received by you from another employer during such period, and you shall report any such benefit actually received by you to the Company;

(C) The exercisability of all outstanding stock options and restricted stock awards then held by you shall accelerate in full (to the extent such options or awards have not been, or would not otherwise be, accelerated at or prior to such time pursuant to the terms of the letter agreement dated April 3, 1996 between you and the Company), provided that if such acceleration would disqualify the Change in Control from being accounted for as a pooling of interests and such accounting treatment would otherwise be available and is desired, such exercisability and vesting will not be accelerated; and

(D) You shall be entitled to full executive outplacement assistance with an agency selected by the Company.

(iv) You shall not be required to mitigate the amount of any payment provided for in this Paragraph 4 by seeking other employment or otherwise, nor shall the amount of any payment provided for in this Paragraph 4 be reduced by any compensation earned by you as the result of employment by another employer after the Date of Termination, or otherwise.

(v) Nothing in this Agreement shall prevent or limit your continuing or future participation in any plan, program, policy or practice provided by the Company to its employees and for which you may qualify nor, subject to Paragraph 13 hereof, shall anything herein limit or otherwise affect such rights as you may have under any contract or agreement between you and the Company; provided, however, that to the extent you are entitled to receive

any payments hereunder upon termination of your employment, you shall not be entitled to any payments under any severance plan, program, policy or practice of the Company then in effect.

5. CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY.

(i) Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any payment or distribution by the Company to or for the your benefit and/or any acceleration of vesting of any options or restricted stock awards (whether paid or payable or distributed or distributable or provided pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Paragraph 5) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code or any interest or penalties are incurred by you with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then you shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after the payment by you of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, you retain an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions of this Paragraph 5(i), if it shall be determined that you are entitled to a Gross-Up Payment, but that you, after taking into account the Payments and the Gross-Up Payment, would not receive a net after-tax benefit of at least \$50,000 (taking into account both income taxes and any Excise Tax) as compared to the net after-tax proceeds to you resulting from an elimination of the Gross-Up Payment and a reduction of the Payments, in an aggregate, to an amount (the "Reduced Amount") such that the receipt of Payments would not give rise to any Excise Tax, then no Gross-Up Payment shall be made to you and the Payments, in the aggregate, shall be reduced to the Reduced Amount.

(ii) Subject to the provisions of Paragraph 5(i), all determinations required to be made under this Paragraph 5, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Coopers and Lybrand or such other certified public accounting firm as may be designated by the Company (the "Accounting Firm") which shall provide detailed supporting calculations to both the Company and you within 15 business days of the receipt of notice from you that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity, or group affecting the Change of Control, the Company shall appoint another nationally recognized accounting firm to make the determinations required hereunder.

All fees and expenses of the Accounting Firm shall be borne by the Company. Any Gross-Up Payment, as determined pursuant to this Paragraph 5, shall be paid by the Company to you within ten business days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and you. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Paragraph 5(iii) and you thereafter are required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for your benefit.

(iii) You shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practical but no later than ten business days after you are informed in writing of such a claim and shall apprise the Company of the nature of the claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies you in writing prior to the expiration of such period that it desires to contest such claim, you shall:

- (A) give the Company any information reasonably requested by the Company relating to such claim,
- (B) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,
- (C) cooperate with the Company in good faith in order to effectively contest such claim, and
- (D) permit the Company to participate in any proceedings relating to such claim.

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold you harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation of

the foregoing provisions of this Paragraph 5(iii), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct you to pay the tax claimed and sue for a refund or to contest the claim in any permissible manner, and you agree to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs you to pay such claim and sue for a refund, the Company shall advance the amount of such payment to you, on an interest-free basis, and shall indemnify and hold the you harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for your taxable year with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and you shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or other taxing authority.

(iv) If, after the receipt by you of an amount advanced by the Company pursuant to Paragraph 5(iii), you become entitled to receive any refund with respect to such a claim, you shall (subject to the Company's complying with the requirements of Paragraph 5(iii)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by you of an amount advanced by the Company pursuant to Paragraph 5(iii), a determination is made that you shall not be entitled to any refund with respect to such claim any the Company does not notify you in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

6. SUCCESSOR'S BINDING AGREEMENT.

(i) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the business and/or the assets of the Company, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as defined above and any successor to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this paragraph 6 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(ii) This Agreement shall inure to the benefit of, and be enforceable by, your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amounts would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee or other designee or, if there be no such designee, to your estate.

7. EMPLOYMENT.

In consideration of the foregoing obligations of the Company, you agree to be bound by the terms and conditions of this Agreement and to remain in the employ of the Company during any period following the announcement by any person of any proposed transaction or transactions which, if effected, would result in a Change in Control of the Company until a Change in Control of the Company has taken place, or in the opinion of the Board, such person has abandoned or terminated its efforts to effect a Change in Control of the Company. Subject to the foregoing, nothing contained in this Agreement shall impair or interfere in any way with your right to terminate your employment or the right of the Company to terminate your employment with or without Cause prior to a Change in Control of the Company. Nothing contained in this Agreement shall be construed as a contract of employment between the Company and you or as a right for you to continue in the employ of the Company, or as a limitation on the right of the Company to discharge you with or without Cause prior to a Change in Control of the Company.

8. COMPETITIVE ACTIVITY.

(i) If your employment terminates under circumstances that entitle you to receive benefits under this Agreement (as described in the first sentence of paragraph 3 of this Agreement), then, unless the Company materially breaches this Agreement, you agree you will not for a period of two (2) years after such termination engage in any business (whether as an owner, partner, officer, director, employee, consultant or otherwise, except as the holder of not more than 1% of the outstanding stock of a publicly-held company) that competes or plans to compete with Avid in the business of the development, manufacture, promotion, distribution or sale of digital film, video or audio editing, special effects or newsroom automation systems or products or any other business in which Avid is engaged or plans to engage at the time of your termination. Without limiting the foregoing, during such period you shall not be employed by or otherwise serve as a consultant to Abekas, Accom, Adobe, Carlton Communications, Chyron, Data Translation, Discreet Logic, DVision, FAST Technology, Hewlett-Packard, Immix, InSync, Kodak, Lightworks, Macromedia, Matrox, Media 100, Metacreations, MGI, Newsmaker, Newstar, Panasonic/Matsushita,

Philips, Pinnacle Systems, Play Systems, Pluto Technologies International, Progressive Networks, Quantel, SADIE, Scitex, Sonic Solutions, SONY, Softimage/Microsoft, Tektronix, Transoft, Truevision, VDONet or VXTreme, or any of their subsidiaries and affiliates.

(ii) You also agree that, for a period of two (2) years from the date of your termination, you will not, either directly or indirectly through an agency, new employer or otherwise, solicit the employment of (or solicit to engage as an independent contractor or consultant) any person who at any time during the one year preceding such solicitation was an employee or independent contractor of Avid or any Avid affiliate.

9. INJUNCTIVE RELIEF.

You acknowledge and agree that the remedy of the Company at law for any breach of the covenants and agreements contained in Paragraph 8 of this Agreement will be inadequate, and that the Company shall be entitled to injunctive relief against any such breach or threatened breach. You represent and agree that such injunctive relief shall not prohibit you from earning a livelihood acceptable to you.

10. NOTICE.

For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all other notices to the Company should be directed to the attention to the Corporate Secretary of the Company, or to such address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

11. INDEMNIFICATION.

The Company will indemnify you to the extent set forth in the Certificate of Incorporation and By-laws of the Company as in effect on the date of the Change in Control of the Company.

12. FURTHER ASSURANCES.

Each party hereto agrees to furnish and execute such additional forms and documents, and to take such further action, as shall be reasonable and customarily required in connection with the performance of this Agreement or the payment of benefits hereunder.

13. ENTIRE AGREEMENT.

This Agreement represents the entire agreement of the parties with respect to the subject matter hereof and supersedes any other agreement between the parties with respect to such subject matter, including, without limitation, all provisions of the letter agreement dated April 3, 1996 between you and the Company (other than the provisions of Sections 5(a) and 5(b) thereof).

14. COUNTERPARTS.

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

15. LEGAL FEES AND EXPENSES.

In addition to any other benefits to which you may be entitled hereunder, the Company shall pay all reasonable legal fees and expenses which you may incur as a result of the Company's contesting the validity, enforceability or your interpretation of, or determination under, this Agreement or otherwise as a result of any termination as a result of which you are entitled to the benefits set forth in this Agreement.

16. MISCELLANEOUS.

(i) No provision of this Agreement may be modified, waived, or discharged unless such waiver, modification, or discharge is agreed to in writing signed by you and such officer as may be specifically designated by the Board of Directors of the Company.

(ii) No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any time prior or subsequent time.

(iii) The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the Commonwealth of Massachusetts.

(iv) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

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

If this Agreement correctly sets forth our agreement on the subject matter hereof, kindly sign and return to the Company the enclosed copy of this Agreement which will then constitute our agreement on this subject.

Sincerely,

Avid Technology, Inc.

By: /s/ Judith Oppenheim

Name: Judith Oppenheim

Title: Sr. Vice President - Human Resources

I acknowledge receipt and agree with the foregoing terms and conditions.

/s/ William J. Miller

William J. Miller

Date: NOVEMBER 10, 1997

EMPLOYMENT AGREEMENT

December 1, 1997

CONFIDENTIAL

William L. Flaherty
 c/o Avid Technology, Inc.
 Metropolitan Technology Park
 One Park West
 Tewksbury, MA 01876

Dear Bill:

Continuity of management of Avid Technology, Inc. ("Avid") is a critical factor to the continued growth and success of Avid. The Avid Board of Directors believes that it is in the best interest of the Company to reinforce and encourage the continued attention and dedication of key members of management to their assigned duties.

In consideration of the mutual promises contained in this letter, it is hereby agreed that Avid shall provide to you, and that you shall receive from Avid, the benefits set forth in this letter (the "Agreement") if your employment with Avid, and its subsidiaries, is terminated during the term of this Agreement.

1. PURPOSE

This Agreement establishes certain special arrangements relating to the termination of your employment with Avid for any reason other than: (i) your becoming totally and permanently disabled under the Avid long-term disability plan or policy, or (ii) your death.

2. TERM OF AGREEMENT

This Agreement shall become effective on the date hereof (the "Effective Date") and shall terminate one year thereafter. The term shall be automatically extended for successive one-year periods after the first anniversary, unless 30 days' advance written notice is given by you or by Avid terminating this Agreement as of any anniversary date.

3. TERMINATION OF EMPLOYMENT

Your employment may be terminated in accordance with any of the following paragraphs, but only upon one (1) month's advance written notice (which period shall be referred to in this Agreement as the "Notice Period"). The expiration of the Notice Period shall be your "Date of Termination."

(a) INVOLUNTARY TERMINATION WITHOUT CAUSE. Avid may terminate your employment without Cause (as defined below). In such an event, you shall continue to receive your full base salary during the Notice Period. Upon your Date of Termination, you shall be entitled to those benefits provided under Section 4.

(b) INVOLUNTARY TERMINATION FOR CAUSE. Avid may terminate your employment for "Cause" by written notice setting forth the Cause for termination. "Cause" means a willful engaging in gross misconduct materially and demonstrably injurious to Avid or the willful and continued failure by you substantially to perform your duties with the Company (other than any such failure resulting from your incapacity due to physical or mental illness) after a written demand for substantial performance is delivered to you by the Chief Executive Officer which specifically identifies the manner in which the Chief Executive Officer believes that you have not substantially performed your duties. "Willful" means an act or omission in bad faith and without reasonable belief that such act or omission was in or not opposed to the best interests of Avid. Upon your Date of Termination, you shall be entitled only to those benefits provided under Section 5.

(c) VOLUNTARY TERMINATION WITHOUT GOOD REASON. You may voluntarily terminate your employment without Good Reason (as defined below). In such an event, you shall continue to receive your full base salary and Employment Benefits during the Notice Period provided you satisfactorily perform your duties during the Notice Period, unless you are relieved of those duties by Avid. Upon your Date of Termination, you shall be entitled only to those benefits provided under Section 5.

(d) VOLUNTARY TERMINATION WITH GOOD REASON. You may voluntarily terminate your employment with Good Reason. "Good Reason" shall mean a significant diminution in your duties or responsibilities or any acquisition of Avid that results in your no longer serving as Chief Financial Officer of an independent public company. In such an event, you shall continue to receive your full base salary and Employment Benefits during the Notice Period, provided you satisfactorily perform your duties during the Notice Period, unless you are relieved of those duties by Avid. Upon your Date of Termination, you shall be entitled to those benefits provided under Section 4.

4. SPECIAL SEVERANCE BENEFITS

If your employment with Avid is involuntarily terminated by Avid without Cause pursuant to Section 3(a) or by you for Good Reason pursuant to Section 3(d), then you shall receive the following benefits as long as you continue to comply with your obligations under Section 8 of this Agreement and any Invention and Nondisclosure Agreement (or similar agreement)

between you and the Company:

(a) Your base salary shall be continued in effect for a period of twelve (12) months from your Date of Termination (hereinafter called your "Severance Pay Period"). Avid will also pay you, during the thirteenth through twenty-fourth months following termination, on a semi-monthly basis, the amount by which your monthly base salary at the Date of Termination exceeds your monthly compensation from your new employer;

(b) You will receive incentive compensation payments in an aggregate amount equal to your target award for the calendar year immediately preceding the calendar year in which your Date of Termination occurs, payable in equal semi-monthly installments during the 12 months following the Date of Termination. You shall have no right to any pro-rated incentive compensation in respect of the year of termination;

(c) Notwithstanding any provision to the contrary in any Avid stock plan, or under the terms of any grant, award agreement or form for exercising any right under any such plan, any stock options or restricted stock awards held by you as of the Date of Termination shall become exercisable or vested, as the case may be, as to an additional number of shares equal to the number that would have been exercisable or vested as of the end of the 12 month period immediately following the Date of Termination. Nothing in this Agreement shall be construed to extend the time period within which any option may be exercised beyond the period specified in the applicable stock plan or under the terms of any grant, award agreement or form for exercising any right under any such plan;

(d) During the Severance Pay Period, in the event you elect to continue to participate in the Company's medical and dental plans to the extent permitted under COBRA, the Company shall pay the cost of such participation; and

(e) You shall be entitled to full executive outplacement assistance with an agency selected by Avid.

5. BENEFITS UPON VOLUNTARY TERMINATION WITHOUT GOOD REASON OR TERMINATION FOR CAUSE.

Upon your termination for Cause in accordance with Section 3(b) or your termination without Good Reason in accordance with Section 3(c), all benefits under this Agreement will be void. In such an event, you shall be eligible for the benefits (if any) provided in accordance with the plans and policies of Avid which are then applicable to employees of Avid generally.

6. CONFIDENTIALITY.

The provisions of the Employee Invention and Non-Disclosure Agreement between you and Avid shall continue in full force and effect following any termination of employment.

7. RELATIONSHIP TO CHANGE-IN-CONTROL AGREEMENT, ETC.

(a) In the event you become entitled to any benefits under any Change-in-Control Employment Agreement between you and Avid, such Change-in-Control Employment Agreement shall control and this agreement shall be void and of no further force or effect.

(b) Except as expressly set forth in Section 7(a), this Agreement supersedes all prior agreements with Avid related to the subject matter hereof (including all provisions of the letter agreement dated August 21, 1996 other than the language under the heading "Severance and Change in Control" through and including clause (i) thereof, which shall survive), and the special severance benefits provided under this Agreement are to be provided instead of any other Avid severance arrangements. Avid's severance policies and practices are superseded except to the extent incorporated herein. Notwithstanding the foregoing, nothing contained in this Agreement shall have any affect upon your rights under any tax qualified "pension benefit plan", as such term is defined in the Employee Retirement Income Security Act of 1974, as amended (ERISA); or any other "welfare benefit plan" as defined in ERISA, including by way of illustration and not limitation, any medical surgical or hospitalization benefit coverage or long-term disability benefit coverage; or under any deferred compensation or equity incentive arrangement, including by way of illustration and not limitation, any stock incentive plan, non-qualified pension plan, or phantom stock plan.

8. COVENANT NOT TO COMPETE AND NOT TO SOLICIT.

(a) During the term of this Agreement, and for a period of two (2) years following the termination of your employment for any reason, you agree you will not engage in any business (whether as an owner, partner, officer, director, employee, consultant or otherwise, except as the holder of not more than 1% of the outstanding stock of a publicly-held company) that competes or plans to compete with Avid in the business of the development, manufacture, promotion, distribution or sale of digital film, video or audio editing, special effects or newsroom automation systems or products or any other business in which Avid is engaged or plans to engage at the time of your termination. Without limiting the foregoing, during such period you shall not be employed by or otherwise serve as a consultant to Abekas, Accom, Adobe, Carlton Communications, Chyron, Data Translation, Discreet Logic, Dvision, FAST Technology, Hewlett-Packard, Immix, InSync, Kodak, Lightworks, Macromedia, Matrox, Media 100, Metacreations, MGI, Newsmaker, Newstar, Panasonic/Matsushita, Philips, Pinnacle Systems, Play Systems, Pluto Technologies International, Progressive Networks, Quantel, SADIE, Scitex, Sonic Solutions, SONY, Softimage/Microsoft, Tektronix, Transoft, Truevision, VDOnet or VXtreme or any of their subsidiaries and

affiliates.

(b) You also agree that, for a period of two (2) years from the date of your termination, you will not, either directly or indirectly through an agency, new employer or otherwise, solicit the employment of (or solicit to engage as an independent contractor or consultant) any person who at any time during the one year preceding such solicitation was an employee or independent contractor of Avid or any Avid affiliate.

(c) If any restriction in this Section 8 is found by any court of competent jurisdiction to be unenforceable because it extends for too long a period of time or over too great a range of activities or in too broad a geographic area, it shall be interpreted to extend only over the maximum period of time, range of activities or geographic area as to which it may be enforceable.

(d) The restrictions contained in this Section 8 are necessary for the protection of the business and good will of Avid and are considered by you to be reasonable for such purpose. You agree that any breach of this Section 8 will cause Avid substantial and irrevocable damage and, therefore, in the event of any such breach, in addition to such other remedies which may be available, Avid shall have the right to seek specific performance and injunctive relief.

9. NOTICE.

Notice required or permitted under this Agreement shall be in writing and shall be deemed to have been given when delivered or mailed by the United States certified mail, return receipt requested, postage prepaid, in a properly addressed envelope. Notices to Avid shall be addressed to the Corporate Secretary.

10. MODIFICATION; SUCCESSORS.

No provision of this Agreement may be waived, modified, or discharged except pursuant to a written instrument signed by you and Avid. This agreement is binding upon any successor to all or substantially all business or assets of Avid.

11. INDEMNIFICATION.

The Company will indemnify you to the extent set forth in the Certificate of Incorporation and By-Laws of the Company for all acts or omissions occurring during the period of your employment.

12. VALIDITY; COUNTERPARTS

This agreement shall be governed by and construed under the laws of the Commonwealth of Massachusetts. The validity or enforceability of any provision hereof shall not affect the validity or enforceability of any other provision hereof. This Agreement may be executed in one or more counterparts, each of which together will constitute one and the same instrument.

Accepted and Agreed
as of December 1, 1997

Sincerely,
Avid Technology, Inc.

By: /S/ William J. Miller

Name: William J. Miller
Title: Chairman and Chief Executive
Officer

/S/ William L. Flaherty

William L. Flaherty

CHANGE-IN-CONTROL AGREEMENT

December 1, 1997

Mr. William L. Flaherty
 Chief Financial Officer
 Avid Technology, Inc.
 Metropolitan Technology Park
 One Park West
 Tewksbury, MA 01876

The Board of Directors (the "Board") of Avid Technology, Inc. ("Avid" or the "Company") recognizes that your contributions to the past and future growth and success of the Company have been and will be substantial and the Board desires to assure the Company of your continued services for the benefit of the Company, particularly in the face of a change-in-control of the Company.

This letter agreement ("Agreement") therefore sets forth those benefits which the Company will provide to you in the event your employment within the Company is terminated after a "Change in Control of the Company" (as defined in Paragraph 2 (i)) under the circumstances described below.

1. TERM.

If a Change in Control of the Company should occur while you are still an employee of the Company, then this Agreement shall continue in effect from the date of such Change in Control of the Company for so long as you remain an employee of the Company, but in no event for more than two full calendar years following such Change in Control of the Company; provided, however, that the expiration of the term of this Agreement shall not adversely affect your rights under this Agreement which have accrued prior to such expiration. If no Change in Control of the Company occurs before your status as an employee of the Company is terminated, this Agreement shall expire on such date. Prior to a Change in Control of the Company, your employment may be terminated by the Company with or without Cause (as defined in Paragraph 3(ii)), and/or this Agreement may be terminated by the Company, at any time upon written notice to you and, in either or both such events, you shall not be entitled to any of the benefits provided hereunder; provided, however, that the Company may not terminate this Agreement following the occurrence of a Potential Change in Control of the Company (as defined in Paragraph 2(ii)) unless (a) at least one year has expired since the most recent event or transaction constituting a Potential Change in Control of the Company and (b) in respect of a Potential Change in Control of the Company which previously occurred, no facts or circumstances continue to exist which, if initially occurring at the time any termination of this Agreement is to occur, would constitute a Potential Change in Control of the Company.

2. CHANGE IN CONTROL; POTENTIAL CHANGE IN CONTROL.

(i) For purposes of this Agreement, a "Change in Control of the Company" shall be deemed to have occurred only if any of the following events occur:

(a) The acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either (i) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change of Control: (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (D) any acquisition by any corporation pursuant to a transaction which satisfies the criteria set forth in clauses (A), (B) and (C) of subparagraph (c) of this Paragraph 2(i); or

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

(c) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such

Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, of the corporation resulting from such Business Combination (which as used in this Paragraph 2(i)(c) shall include, without limitation, a corporation which as a result of such transaction owns all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be and (B) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination, or the combined voting power of the then-outstanding voting securities of such corporation.

(ii) For purposes of this Agreement, a "Potential Change in Control of the Company" shall be deemed to have occurred if (A) the Company shall enter into an agreement, the consummation of which would result in the occurrence of a Change in Control of the Company, or (B) any person shall publicly announce an intention to take or to consider taking actions which if consummated would constitute a Change in Control of the Company, or (C) the Company shall receive any written communication from any third party or third parties, acting as principal or as authorized representative of a disclosed principal, which is publicly disclosed and proposes (or indicates a desire to engage in discussions relating to the possibility of or with a view toward) a transaction the consummation of which would result in the occurrence of a Change in Control of the Company, or (D) any Person other than the Company or a subsidiary thereof or any employee benefit plan sponsored by the Company or a subsidiary thereof or a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock in the Company, shall (I) become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), (II) disclose directly or indirectly to the Company or publicly a plan or intention to become the beneficial owner or (E) any Person described in clause (D) above who becomes the beneficial owner, directly or indirectly, of voting shares representing 20.0% or more of the combined voting power of the Outstanding Company Voting Securities shall increase his beneficial ownership of such securities by 5% or more over the percentage acquired in the transaction which previously gave rise to the occurrence of a Potential Change in Control of the Company. Notwithstanding the foregoing, any event or transaction which would otherwise constitute a Potential Change in Control of the Company shall not constitute a Potential Change in Control of the Company if the negotiations or other actions leading to such event or transaction were initiated by the Company (it being understood that the occurrence of such a Company-initiated event or transaction shall not affect the existence of any Potential Change in Control of the Company resulting from any other event or transaction).

3. TERMINATION FOLLOWING CHANGE IN CONTROL.

If a Change in Control of the Company shall have occurred while you are still an employee of the Company, you shall be entitled to the payments and benefits provided in Paragraph 4 hereof upon the subsequent termination of your employment within two (2) full calendar years of such Change in Control, by you or by the Company unless such termination is (a) because of your death or "Disability", (b) by the Company for "Cause" (as defined below), or (c) by you other than for "Good Reason" (as defined below), in any of which events you shall not be entitled to receive benefits under this Agreement.

(i) "DISABILITY". If, as a result of your incapacity due to physical or mental illness, you shall have been deemed "disabled" by the institution appointed by the Company to administer the Company's Long-Term Disability Plan (or successor plan) because you shall have been absent from your duties with the Company on a full-time basis for six months and shall not have returned to full-time performance of your duties within thirty days after written notice is given you, the Company may terminate your employment for Disability.

(ii) "CAUSE". For the purposes of this Agreement, the Company shall have "Cause" to terminate your employment only upon

(A) the willful and continued failure by you substantially to perform your duties with the Company (other than any such failure resulting from your incapacity due to physical or mental illness or any failure resulting from your terminating your employment with the Company for "Good Reason" (as defined below)) after a written demand for substantial performance is delivered to you by the Board which specifically identifies the manner in which the Board believes that you have not substantially performed your duties, or

(B) the willful engaging by you in gross misconduct materially and demonstrably injurious to the Company.

For purposes of this paragraph, no act, or failure to act, on your part shall be considered "willful" unless done, or omitted to be done, by you not in good faith and without reasonable belief that your action or omission was in the best interests of the Company. Notwithstanding the foregoing, you shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held

for that purpose (after at least 20 days prior notice to you and an opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you failed to perform your duties or engaged in misconduct as set forth in clause (A) or (B) of this Paragraph 3(ii) and that you did not correct such failure or cease such misconduct after being requested to do so by the Board.

(iii) "GOOD REASON". You may terminate your employment for Good Reason. For purpose of this Agreement, "Good Reason" shall mean:

(A) the assignment to you of any duties materially inconsistent with, or any material diminution of, your positions, duties, responsibilities, and status with the Company immediately prior to a Change in Control of the Company, or a material change in your titles or offices as in effect immediately prior to a Change in Control of the Company, or any removal of you from, or any failure to reelect you to, any such positions;

(B) a reduction by the Company in your base salary in effect immediately prior to a Change in Control of the Company or a failure by the Company to increase your base salary (within fifteen months of your last increase) in an amount which is substantially similar, on a percentage basis, to the average percentage increase in base salary for all officers of the Company during the twelve months preceding your increase;

(C) the failure by the Company to continue in effect any life insurance, health or accident or disability plan in which you are participating or are eligible to participate at the time of a Change in Control of the Company (or plans providing you with substantially similar benefits), except as otherwise required in terms of such plans as in effect at the time of any Change in Control of the Company or the taking of any action by the Company which would adversely affect your participation in or materially reduce your benefits under any of such plans or deprive you of any material fringe benefits enjoyed by you at the time of a Change in Control of the Company or the failure by the Company to provide you with the number of paid vacation days to which you are entitled in accordance with the vacation policies of the Company in effect at the time of a Change in Control of the Company;

(D) the failure by the Company to (i) continue in effect any material incentive or variable compensation plan in which you participate immediately prior to the Change of Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, (ii) continue your participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of your participation relative to other participants, as existed at the time of the Change of Control or (iii) award cash bonuses to you in amounts and in a manner substantially consistent with past practice in light of the Company's financial performance;

(E) any requirement by the Company that (i) the location of which you perform your principal duties for the Company be changed to a new location that is more than 45 miles from the location at which you perform your principal duties for the Company at the time of the Change in Control of the Company or (ii) you are required to travel on an overnight basis to a significantly greater extent than you were required to so travel prior to the Change in Control of the Company;

(F) any material breach by the Company of any provision of this Agreement (including, without limitation, Paragraph 6), which is not cured within 30 days after written notice thereof; or

(G) any purported termination of your employment by the Company which is not effected pursuant to a Notice of Termination satisfying the requirements of subparagraph (iv) below (and, if applicable, subparagraph (ii) above); and for purposes of this Agreement, no such purported termination shall be effective.

(iv) NOTICE OF TERMINATION. Any termination by the Company pursuant to subparagraphs (i) or (ii) above or by you pursuant to subparagraph (iii) above shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your termination under the provision so indicated.

(v) DATE OF TERMINATION. "Date of Termination" shall mean:

(A) if this Agreement is terminated for Disability, thirty days after Notice of Termination is given (provided that you shall not have returned to the performance of your duties on a full-time basis during such thirty-day period),

(B) if your employment is terminated pursuant to subparagraph (iii) above, the date specified in the Notice of Termination, and

(C) if your employment is terminated for any other reason, the date on which a Notice of Termination is given (or, if a Notice of Termination is not given, the date of such termination).

(i) If, after a Change in Control of the Company, you shall fail to perform your duties hereunder as a result of incapacity due to physical or mental illness, you shall continue to receive your full base salary twice a month at the rate then in effect and any awards under the Executive/Senior Management Variable Compensation Plan or any successor plan shall continue to accrue and to be paid during such period until your employment is terminated (and, if the Company maintains a Long Term Disability Plan, you shall be eligible for coverage thereunder in accordance with the terms thereof and subject to the satisfaction of all applicable conditions, including without limitation, the timely filing of a notice of claim); provided, however, in the event the Company makes no interim individual accruals for the Executive/Senior Management Variable Compensation Plan or any successor plan in respect of any period for which no award has been made under such Plan because of such termination of this Agreement or of employment, you shall receive payment in the amount equal to the product of (a) the amount awarded to you under such Plan or any successor plan during the period most recently ended, multiplied by (b) a fraction (hereinafter the "Partial Service Fraction"), the numerator of which is the whole and partial months of service completed in the current period, and the denominator of which is the number of months in the period most recently ended for which an award was made.

(ii) If, after a Change in Control of the Company, your employment shall be terminated for Cause, the Company shall pay you for your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given and the Company shall have no further obligations to you under this Agreement.

(iii) If, within two years after a Change in Control of the Company, the Company shall terminate your employment, other than pursuant to Paragraph 3(i) or 3(ii) hereof or by reason of death, or you shall terminate your employment for Good Reason,

(A) The Company shall pay you as severance pay (and without regard to the provisions of any benefit plan) in a lump sum in cash on the fifth day following the Date of Termination, the following amounts:

(x) your accrued but unpaid base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus an amount equal to the amount, if any, of any incentive compensation awards which have not been paid but which have been earned by you under the Executive/Senior Management Variable Compensation Plan or any successor plan (including awards which have been deferred, except to the extent such awards have been transferred, prior to a Change in Control of the Company, by the Company to a trustee in an irrevocable trust) it being understood that you shall have earned in each year for which an award shall be payable an amount equal to the product of (a) the amount awarded you under such Plan or any successor plan during the period most recently ended, multiplied by (b) the Partial Service Fraction; and

(y) an amount equal to the sum of your annual base salary at the highest rate in effect during the twelve (12) month period immediately preceding the Date of Termination plus two times the amount of the highest award to you under the Executive/Senior Management Variable Compensation Plan or any successor plan during the twenty-four (24) month period ended on the Date of Termination.

(B) For a twenty-four (24) month period after such termination, the Company shall arrange to provide you with life, dental, accident and group health insurance benefits substantially similar to those that you were receiving immediately prior to such termination to the extent that the Company's plans then permit the Company to provide you with such benefits. Notwithstanding the foregoing, the Company shall not provide any such benefits to you to the extent that an equivalent benefit is received by you from another employer during such period, and you shall report any such benefit actually received by you to the Company;

(C) The exercisability of all outstanding stock options and restricted stock awards then held by you shall accelerate in full (to the extent such options or awards have not been, or would not otherwise be, accelerated at or prior to such time pursuant to the terms of the letter agreement dated August 21, 1996 between you and the Company), provided that if such acceleration would disqualify the Change in Control from being accounted for as a pooling of interests and such accounting treatment would otherwise be available and is desired, such exercisability and vesting will not be accelerated; and

(D) You shall be entitled to full executive outplacement assistance with an agency selected by the Company.

(iv) You shall not be required to mitigate the amount of any payment provided for in this Paragraph 4 by seeking other employment or otherwise, nor shall the amount of any payment provided for in this Paragraph 4 be reduced by any compensation earned by you as the result of employment by another employer after the Date of Termination, or otherwise.

(v) Nothing in this Agreement shall prevent or limit your continuing or future participation in any plan, program, policy or practice provided by the Company to its employees and for which you may qualify nor, subject to Paragraph 13 hereof, shall anything herein limit or otherwise affect such rights as you may have under any contract or agreement between you and the

Company; provided, however, that to the extent you are entitled to receive any payments hereunder upon termination of your employment, you shall not be entitled to any payments under any severance plan, program, policy or practice of the Company then in effect.

5. CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY.

(i) Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any payment or distribution by the Company to or for the your benefit and/or any acceleration of vesting of any options or restricted stock awards (whether paid or payable or distributed or distributable or provided pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Paragraph 5) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code or any interest or penalties are incurred by you with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then you shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after the payment by you of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, you retain an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions of this Paragraph 5(i), if it shall be determined that you are entitled to a Gross-Up Payment, but that you, after taking into account the Payments and the Gross-Up Payment, would not receive a net after-tax benefit of at least \$50,000 (taking into account both income taxes and any Excise Tax) as compared to the net after-tax proceeds to you resulting from an elimination of the Gross-Up Payment and a reduction of the Payments, in an aggregate, to an amount (the "Reduced Amount") such that the receipt of Payments would not give rise to any Excise Tax, then no Gross-Up Payment shall be made to you and the Payments, in the aggregate, shall be reduced to the Reduced Amount.

(ii) Subject to the provisions of Paragraph 5(i), all determinations required to be made under this Paragraph 5, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Coopers and Lybrand or such other certified public accounting firm as may be designated by the Company (the "Accounting Firm") which shall provide detailed supporting calculations to both the Company and you within 15 business days of the receipt of notice from you that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity, or group affecting the Change of Control, the Company shall appoint another nationally recognized accounting firm to make the determinations required hereunder.

All fees and expenses of the Accounting Firm shall be borne by the Company. Any Gross-Up Payment, as determined pursuant to this Paragraph 5, shall be paid by the Company to you within ten business days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and you. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Paragraph 5(iii) and you thereafter are required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for your benefit.

(iii) You shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practical but no later than ten business days after you are informed in writing of such a claim and shall apprise the Company of the nature of the claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies you in writing prior to the expiration of such period that it desires to contest such claim, you shall:

(A) give the Company any information reasonably requested by the Company relating to such claim,

(B) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(C) cooperate with the Company in good faith in order to effectively contest such claim, and

(D) permit the Company to participate in any proceedings relating to such claim,

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold you harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such

representation and payment of costs and expenses. Without limitation of the foregoing provisions of this Paragraph 5(iii), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct you to pay the tax claimed and sue for a refund or to contest the claim in any permissible manner, and you agree to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs you to pay such claim and sue for a refund, the Company shall advance the amount of such payment to you, on an interest-free basis, and shall indemnify and hold the you harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for your taxable year with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and you shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or other taxing authority.

(iv) If, after the receipt by you of an amount advanced by the Company pursuant to Paragraph 5(iii), you become entitled to receive any refund with respect to such a claim, you shall (subject to the Company's complying with the requirements of Paragraph 5(iii)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by you of an amount advanced by the Company pursuant to Paragraph 5(iii), a determination is made that you shall not be entitled to any refund with respect to such claim any the Company does not notify you in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

6. SUCCESSOR'S BINDING AGREEMENT.

(i) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the business and/or the assets of the Company, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as defined above and any successor to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this paragraph 6 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(ii) This Agreement shall inure to the benefit of, and be enforceable by, your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amounts would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee or other designee or, if there be no such designee, to your estate.

7. EMPLOYMENT.

In consideration of the foregoing obligations of the Company, you agree to be bound by the terms and conditions of this Agreement and to remain in the employ of the Company during any period following the announcement by any person of any proposed transaction or transactions which, if effected, would result in a Change in Control of the Company until a Change in Control of the Company has taken place, or in the opinion of the Board, such person has abandoned or terminated its efforts to effect a Change in Control of the Company. Subject to the foregoing, nothing contained in this Agreement shall impair or interfere in any way with your right to terminate your employment or the right of the Company to terminate your employment with or without Cause prior to a Change in Control of the Company. Nothing contained in this Agreement shall be construed as a contract of employment between the Company and you or as a right for you to continue in the employ of the Company, or as a limitation on the right of the Company to discharge you with or without Cause prior to a Change in Control of the Company.

8. COMPETITIVE ACTIVITY.

(i) If your employment terminates under circumstances that entitle you to receive benefits under this Agreement (as described in the first sentence of paragraph 3 of this Agreement), then, unless the Company materially breaches this Agreement, you agree you will not for a period of two (2) years after such termination engage in any business (whether as an owner, partner, officer, director, employee, consultant or otherwise, except as the holder of not more than 1% of the outstanding stock of a publicly-held company) that competes or plans to compete with Avid in the business of the development, manufacture, promotion, distribution or sale of digital film, video or audio editing, special effects or newsroom automation systems or products or any other business in which Avid is engaged or plans to engage at the time of your termination. Without limiting the foregoing, during such period you shall not be employed by or otherwise serve as a consultant to Abekas, Accom, Adobe, Carlton Communications, Chyron, Data Translation, Discreet Logic, DVision, FAST Technology, Hewlett-Packard, Immix, InSync, Kodak, Lightworks, Macromedia, Matrox,

Media 100, Metacreations, MGI, Newsmaker, Newstar, Panasonic/Matsushita, Philips, Pinnacle Systems, Play Systems, Pluto Technologies International, Progressive Networks, Quantel, SADIE, Scitex, Sonic Solutions, SONY, Softimage/Microsoft, Tektronix, Transoft, Truevision, VDONet or VXtreme, or any of their subsidiaries and affiliates.

(ii) You also agree that, for a period of two (2) years from the date of your termination, you will not, either directly or indirectly through an agency, new employer or otherwise, solicit the employment of (or solicit to engage as an independent contractor or consultant) any person who at any time during the one year preceding such solicitation was an employee or independent contractor of Avid or any Avid affiliate.

9. INJUNCTIVE RELIEF.

You acknowledge and agree that the remedy of the Company at law for any breach of the covenants and agreements contained in Paragraph 8 of this Agreement will be inadequate, and that the Company shall be entitled to injunctive relief against any such breach or threatened breach. You represent and agree that such injunctive relief shall not prohibit you from earning a livelihood acceptable to you.

10. NOTICE.

For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all other notices to the Company should be directed to the attention to the Corporate Secretary of the Company, or to such address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

11. INDEMNIFICATION.

The Company will indemnify you to the extent set forth in the Certificate of Incorporation and By-laws of the Company as in effect on the date of the Change in Control of the Company.

12. FURTHER ASSURANCES.

Each party hereto agrees to furnish and execute such additional forms and documents, and to take such further action, as shall be reasonable and customarily required in connection with the performance of this Agreement or the payment of benefits hereunder.

13. ENTIRE AGREEMENT.

This Agreement represents the entire agreement of the parties with respect to the subject matter hereof and supersedes any other agreement between the parties with respect to such subject matter, including, without limitation, all provisions of the letter agreement dated August 21, 1996 between you and the Company (other than the first sentence of the section entitled "Severance and Change in Control" thereof).

14. COUNTERPARTS.

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

15. LEGAL FEES AND EXPENSES.

In addition to any other benefits to which you may be entitled hereunder, the Company shall pay all reasonable legal fees and expenses which you may incur as a result of the Company's contesting the validity, enforceability or your interpretation of, or determination under, this Agreement or otherwise as a result of any termination as a result of which you are entitled to the benefits set forth in this Agreement.

16. MISCELLANEOUS.

(i) No provision of this Agreement may be modified, waived, or discharged unless such waiver, modification, or discharge is agreed to in writing signed by you and such officer as may be specifically designated by the Board of Directors of the Company.

(ii) No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any time prior or subsequent time.

(iii) The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the Commonwealth of Massachusetts.

(iv) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

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

If this Agreement correctly sets forth our agreement on the subject matter

hereof, kindly sign and return to the Company the enclosed copy of this Agreement which will then constitute our agreement on this subject.

Sincerely,

Avid Technology, Inc.

By: /S/ William J. Miller

Name: William J. Miller
Title: Chairman and Chief Executive
Officer

I acknowledge receipt and agree with the foregoing terms and conditions.

/S/ William L. Flaherty

William L. Flaherty

Date: DECEMBER 1, 1997

SUBSIDIARIES OF THE REGISTRANT AS OF DECEMBER 31, 1997

AVID TECHNOLOGY WORLDWIDE, INC. (Delaware)
AVID TECHNOLOGY SECURITIES CORPORATION (Massachusetts)
ELASTIC REALITY, INC. (Wisconsin)
AVID TECHNOLOGY FSC LIMITED (Barbados)
AVID TECHNOLOGY EUROPE LIMITED (England)
AVID TECHNOLOGY HQ LIMITED (England)
AVID TECHNOLOGY IBERIA LTD (England)
AVID TECHNOLOGY SYSTEMS LIMITED (England)
PARALLAX SOFTWARE LIMITED (England)
3 SPACE SOFTWARE LIMITED (England)
AVID TECHNOLOGY S.A.R.L. (France)
AVID TECHNOLOGY G.m.b.H. (Germany)
AVID TECHNOLOGY SALES LIMITED (Ireland)
AVID TECHNOLOGY S.R.L. (Italy)
AVID TECHNOLOGY HOLDING B.V. (Netherlands)
AVID TECHNOLOGY INTERNATIONAL B.V. (Netherlands)
AVID JAPAN K.K. (Japan)
AVID TECHNOLOGY (S.E. ASIA) PTE LTD (Singapore)
AVID TECHNOLOGY (AUSTRALIA) PTY LTD (Australia)
AVID NORTH ASIA LIMITED (Hong Kong)

Consent of Independent Accountants

We consent to the incorporation by reference in the registration statements of Avid Technology, Inc. on Form S-3 (File Nos. 33-93472, 33-96456 and 333-03128) and Form S-8 (File Nos. 33-64126, 33-64130, 33-64128, 33-64124, 33-82478, 33-88318, 33-98692, 333-08821, 333-08823, 333-08825, 333-30367, 333-42569 and 333-42571) of our report dated February 4, 1998, on our audits of the consolidated financial statements and financial statement schedule of Avid Technology, Inc. as of December 31, 1997 and 1996, and for each of the three years in the period ended December 31, 1997, which report is included in this Annual Report on Form 10-K.

/s/ Coopers & Lybrand L.L.P

COOPERS & LYBRAND L.L.P.

Boston, Massachusetts
March 25, 1998

THIS SCHEDULE CONTAINS SUMMARY INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS ON THE FORM 10-K FOR THE PERIOD ENDED DECEMBER 31, 1997 AND THE CONSOLIDATED STATEMENT OF INCOME AS FILED ON FORM 10-K FOR THE PERIOD ENDED DECEMBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

	1,000	
12-MOS		
	DEC-31-1997	
	JAN-01-1997	
	DEC-31-1997	
		108,308
		78,654
		87,302
		7,529
		9,842
	301,082	
		99,619
		60,702
		356,805
	114,608	
		0
	0	
		0
		242
		241,552
356,805		
		471,338
	471,338	
		221,553
		221,553
		219,672
		0
		0
		38,238
		11,854
	26,384	
		0
		0
		0
		26,384
		1.14
		1.08

THIS SCHEDULE CONTAINS SUMMARY INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS ON THE FORM 10-K FOR THE PERIOD ENDED DECEMBER 31, 1996 AND THE CONSOLIDATED STATEMENT OF INCOME AS FILED ON FORM 10-K FOR THE PERIOD ENDED DECEMBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS. THE EARNINGS PER SHARE INFORMATION, INCLUDED BELOW, HAS BEEN RESTATED TO REFLECT THE ADOPTION OF SFAS NO. 128.

		1,000
12-MOS	DEC-31-1996	
	JAN-01-1996	
	DEC-31-1996	
		75,795
		17,248
		93,706
		7,519
		28,359
	231,698	
		92,281
		43,035
	300,979	
	86,378	
		0
	0	
		0
		213
	213,202	
300,979		
		429,009
	429,009	
		238,808
	238,808	
	249,564	
	0	
	0	
	(55,947)	
	(17,903)	
(38,044)		
	0	
	0	
		0
	(38,044)	
	(1.80)	
	(1.80)	

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET AND THE CONDENSED CONSOLIDATED STATEMENT OF INCOME AS FILED ON THE FORM 10-Q FOR THE PERIODS ENDED SEPTEMBER 30, 1997 (UNAUDITED), JUNE 30, 1997 (UNAUDITED), AND MARCH 31, 1997 (UNAUDITED), RESPECTIVELY AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS. THE QUARTERLY EARNINGS PER SHARE INFORMATION INCLUDED BELOW HAS BEEN RESTATED TO REFLECT THE ADOPTION OF SFAS NO. 128.

1,000

9-MOS	6-MOS	3-MOS		
DEC-31-1997	DEC-31-1997	DEC-31-1997		
SEP-30-1997	JUN-30-1997	MAR-31-1997		
	115,704	89,606		122,981
69,147		57,801		17,875
85,858		88,561		76,805
6,047		6,777		6,982
18,701		23,271		24,133
307,548	277,809		259,691	
	97,768	95,821		93,786
57,771		52,951		47,851
367,032		348,965		324,015
108,638	107,808		93,059	
	0		0	0
0	0	0	0	0
	241	237		230
	257,567	240,140		229,741
367,032	348,965	324,015		
	347,602	231,093	231,093	108,209
347,602		231,093	108,209	
	167,491	115,886		56,185
167,491		105,792		50,516
161,234		0		0
0		0		0
24,759		12,700		2,748
7,675		4,445		962
17,084	8,255		1,786	
	0	0		0
	0	0		0
	0	0		0
	0	0		0
17,084		8,255		1,786
0.75		0.37		0.08
0.72		0.36		0.08

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET AND THE CONDENSED CONSOLIDATED STATEMENT OF INCOME AS FILED ON THE FORM 10-Q FOR THE PERIODS ENDED SEPTEMBER 30, 1996 (UNAUDITED), JUNE 30, 1996 (UNAUDITED), AND MARCH 31, 1996 (UNAUDITED), RESPECTIVELY AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS. THE QUARTERLY EARNINGS PER SHARE INFORMATION INCLUDED BELOW HAS BEEN RESTATED TO REFLECT THE ADOPTION OF SFAS NO. 128

1,000

9-MOS	6-MOS		3-MOS	
DEC-31-1996	DEC-31-1996		DEC-31-1996	
SEP-30-1996	JUN-30-1996	JUN-30-1996	MAR-31-1996	MAR-31-1996
	72,986	53,902	25,750	
2,663	1,036	27,064		
88,621	92,244	99,903		
5,058	4,729	7,585		
51,667	65,357	70,089		
243,855	240,074	246,428		
	98,199	96,650	91,645	
45,176	39,987	35,197		
299,728	302,747	306,441		
80,559	77,907	77,619		
0	0	0	0	0
	0	0	0	0
	213	211	211	
	217,455	222,591	226,052	
299,728	302,747	306,441		
	315,798	201,134	201,134	92,039
315,798	201,134	111,872	92,039	
	172,542	111,872	52,456	52,456
172,542	111,872	73,697		
193,941	129,503	0		
0	0	0		
0	0	0		
(48,865)	(38,944)	(33,527)		
(15,652)	(12,489)	(10,729)		
(33,213)	(26,455)	(22,798)		
0	0	0	0	0
0	0	0	0	0
(33,213)	(26,455)	(22,798)		
(1.57)	(1.26)	(1.08)		
(1.57)	(1.26)	(1.08)		