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Avid Technology, Inc. annual report

avid executive team



front row left to right:

Michael J. Rockwell, Chief Technology Officer • **Michael Stojda**, Managing Director, Softimage • **David A. Krall**, President and Chief Executive Officer • **Carol L. Reid**, Vice President and Corporate Controller • **Trish Baker**, Vice President of Human Resources • **Ethan E. Jacks**, Vice President of Business Development and Chief Legal Officer

back row left to right:

Joseph Bentivegna, Vice President of Video Development and Operations • **Charles L. Smith**, Vice President of Worldwide Sales, Marketing, and Service • **Paul J. Milbury**, Vice President and Chief Financial Officer • **David M. Lebolt**, Vice President and General Manager, Digidesign

financial highlights

Consolidated Statements of Operations

(in thousands except per share and employee data)

Year ended December 31,	2002	2001	2000
Net Revenues	\$418,719	\$434,638	\$476,090
Gross margin	50.5%	50.9%	50.8%
Net income (loss)	\$2,999	(\$38,147)	(\$56,349)
Net income (loss) per share – diluted	\$0.11	(\$1.49)	(\$2.28)

Consolidated Balance Sheets

As of December 31,	2002	2001	2000
Cash and marketable securities	\$89,034	\$72,961	\$83,206
Total assets	\$235,803	\$215,806	\$266,482
Total stockholders' equity	\$123,564	\$104,758	\$137,850
Employees at year end	1,556	1,543	1,629

to our shareholders

Avid's strong financial performance was reflected in the 89% increase in our stock price during the year, making Avid one of the 100 best performing stocks on the NASDAQ National Market.

Dramatic changes are underway in the methods used to produce, manage and distribute media and Avid is well positioned to capitalize on many emerging opportunities.

Our solid performance this past year is a continuing reflection of the strategy we began implementing nearly three years ago. Over that time, we have been making steady progress on our ambitious product development plans. We have focused on strengthening our financial position by reducing operating expenses and increasing profitability. And we have targeted the company at important market opportunities that should drive our business forward into the future. These efforts were reflected in our improving financial results throughout 2002 and the 89% increase in our stock price during the year, making Avid one of the 100 best performing stocks on The NASDAQ® National Market in 2002.

In our core postproduction market, we are capitalizing on fundamental changes in the way media is produced at both the high and low ends of the market. To satisfy the increasing demand for high definition, or HD, production, we began shipping version six of the Avid®|DS HD system. This product provides the most efficient nonlinear workflow available for customers desiring to finish in HD, enabling Avid to leverage our historic strength in standard definition media production to the new world of HD production.

At the low end of the postproduction market, we began shipping version 3.5 of Avid Xpress® DV software during 2002, now available on both the Macintosh and Windows platforms. Unit sales of Avid Xpress DV software more than tripled in 2002, driven by the explosive demand for DV-based acquisition and editing. Our expanding customer base for this product ranges from corporate and event videographers, to students eager to learn the industry-standard Avid interface, to the more than 75,000 trained Media Composer® editors looking for a portable, powerful, and compatible editing solution.

Our broadcast business expanded as well, with many news organizations embracing both the efficiencies and cost savings that come from implementing end-to-end all-digital news production environments with Avid solutions. We received orders from around the world, including TV Azteca in Mexico, ABC News in the United States, New Delhi Television in India, and France Télévisions – the single largest broadcast deal in Avid's history.

Our audio division, Digidesign®, completed a strong 2002 based on several new product introductions. The year began with the release of Pro Tools®|HD system, the company's next generation audio production platform. Digidesign also introduced two new products, the Mbox™ and the Digi 002™ systems both of which are targeted at the growing consumer and prosumer markets.

Softimage®, our 3D animation and effects group, released two new versions of XSI™ software in 2002. Version 3.0 of XSI software is now widely recognized as the premier high-end 3D animation package, and is being adopted by industry leaders ranging from Industrial Light & Magic to Electronic Arts.

Looking across all of our businesses, I am pleased with Avid's direction and the progress we have made towards fulfilling our strategic objectives. Dramatic changes are underway in the methods used to produce, manage, and distribute media, and Avid is well positioned to capitalize on many emerging opportunities. On the following pages we explore these trends and the opportunities they present. In closing, I would like to thank our customers, suppliers, shareholders and employees for helping Avid achieve success in 2002. We look forward to building on these accomplishments in the coming year.



On January 8, 2003, Avid opened The NASDAQ Stock Market in honor of the company's tenth anniversary of being listed on the exchange.

David Krall
President and Chief Executive Officer



Avid | DS HD system

For nearly 15 years, Avid has focused on one thing — helping professionals work more efficiently to create the most widely recognized media in the world. What started with the simple idea of using a computer to edit and enhance media in a world of tape has helped spawn a completely new world, where tape doesn't need to exist at all. As more and more professionals find themselves working in a digital world — acquiring, editing, storing, managing, and distributing media entirely digitally — Avid has responded by delivering the broadest range of professional-quality digital nonlinear media production solutions designed to streamline efficiency, increase productivity, and offer a valuable return on investment.

Although Avid's video, audio, animation, news, and media asset management solutions offer familiar, intuitive interfaces that have become widely acknowledged as the industry standard, we have an equally deep-seated passion for further pioneering the digital nonlinear frontier. As we move forward with our research and development initiatives, we're energized about Avid's prospects for the future — especially given the rapid rate at which technological advancements continue to shape the world of digital content creation, management, and distribution. The markets we serve demand forward thinking, innovative vision, and reliable, high-quality creative solutions — and we believe no other nonlinear manufacturer in the world is in a better position to deliver than Avid.



video & film

For years, industry analysts have been talking about high-definition media, or HD, as “the new standard” for broadcast television, with the capacity to deliver visual images up to four times clearer than current broadcast methods. Though the conversion to HD has been slow to evolve — due to shifting government mandates and sluggish sales of HD receivers among consumers, a significant transition is taking place in the film and video postproduction industry, where it has become cheaper to acquire and produce media in HD than film. As a result, many professionals

are beginning to produce content in HD, because as an archival format, it significantly extends the shelf life of a project compared to an archive created on film or standard-definition video. This “future proofing” of media in HD translates into significant time-savings — and revenue opportunities — for a wide range of content creation professionals, such as film distributors interested in creating future special-edition DVDs of big blockbusters, or television networks that are already planning to run the programming they create today in syndication for years to come.

As a leader in HD postproduction, Avid is helping its customers offer invaluable services, such as "future proofing" media in HD — so they can move further along the value chain of digital content creation.

extension tv studio, London,
for client Thomas Cook TV



broadcast

Across the globe, a growing number of regional, national, and international broadcasters continue to recognize the efficiencies and cost-savings associated with adopting digital workflows that reduce the reliance on tape in news production. In the field, mobile nonlinear solutions help reporters to edit footage on-location and then quickly transmit finished segments over the Internet at significantly lower cost than using traditional satellite transmissions. In the studio, newsroom computer automation and shared-media asset management systems enable journalists, editors, producers, and news anchors to keep

their fingers on the pulse of a late breaking story — and make changes as the facts come in, right up until the news hits the airwaves. Large news organizations with multiple broadcast facilities are also experiencing the tremendous improvements that come from producing news in end-to-end all-digital environments. In fact, after qualifying the productivity gains and return on their investment within an individual facility, many of these organizations are deploying solutions across an entire group of stations — demonstrating the value that digital news production offers over analog production methods.

Broadcasters that are ready to convert from analog to digital production look for a technology partner with a record of reliability, dependable support, and scalable solutions. They choose Avid because of our proven track record of implementing more all-digital, end-to-end news production environments than all of our competitors combined.



digital audio

Professionals in the digital audio industry are always striving to achieve higher fidelity and greater acoustic resonance in their work. But today, delivering superior quality means capturing audio at higher sample rates, and that requires digital signal processing power far greater than what is available in today's most robust personal computers. Technology that works in conjunction with the host computer to significantly enhance audio processing power is proving to be an extremely practical and affordable way to improve audio recording quality and deliver high-definition experiences to consumers. Beyond recording and editing, a growing number of audio professionals

are also looking to extend digital production efficiencies into the world of mixing, where analog consoles are still fairly common. Specially designed digital “control surfaces” are fueling this movement, as they offer the feel and layout of a traditional analog console but utilize touch-sensitive controls to integrate seamlessly with digital audio workstations. As a result, professionals who favor a traditional hands-on approach to mixing have the convenience of using physical controls to access and adjust virtually every parameter and data point created during the digital recording and editing process.

As a leading provider of digital audio production systems for the professional music, broadcast, multimedia and film industries, Digidesign is the only supplier to offer a multi-channel professional audio workstation solution to support 24 simultaneous audio tracks at a 192 kHz sample rate.

Image courtesy of PSYOP, Euan Hexon and Arnold Worikwide



3-D animation & effects

In the world of digital content creation, it is almost standard practice for today's feature films, television shows, and video games to include computer-generated characters and special effects. While computers themselves have streamlined the process for creating visually intense graphics, artists and developers require specialized software that offers increasingly intuitive modeling, animation, simulation, rendering and compositing features to further simplify complex development cycles.

More frequently, professionals are relying on behavioral simulation tools to generate, choreograph and control up to tens-of-thousands of characters in an individual scene. With powerful simulation software, content creators can produce results in a fraction of the time it would take to duplicate characters using traditional methods, and help to significantly reduce production costs associated with using live talent to achieve a similar effect.

With industry leading 3-D animation, special effects, and compositing software, Softimage offers customers the opportunity to achieve significant time- and cost-savings without having to sacrifice creative freedom and flexibility.



Avid Unity™
MediaNetwork

Media Asset Management & Workflow

In a little more than a decade, the paradigm of using a standalone computer to create digital media has evolved dramatically to include groups of professionals who are now able to work in collaborative environments and share files. But today's content creators need more than just a network of systems to achieve greater efficiencies — they depend on intelligent, dynamic solutions

that combine editing, mixing, animating, finishing, storage, and media management capabilities that make it possible for multiple users to simultaneously leverage vast amounts of media resources in real time. Facilitating this kind of workflow enables talented professionals to focus on the creativity and quality of their work, without having to think about the underlying technology.

From small editorial workgroups seeking a cost-effective Ethernet-based solution to large facilities demanding networking for a fleet of high-end workstations, Avid offers scalable shared-storage and media-management solutions to meet the needs of any nonlinear production environment.



corporate information



NASDAQ Stock

Market Ceremony,

January 8, 2003

Independent Accountants

PricewaterhouseCoopers LLP
Boston, Massachusetts

Transfer Agent + Registrar

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Shareholder Inquiries

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

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Common Shares

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

Annual Meeting of Shareholders

The Annual Meeting of
Shareholders will take place
at 10:00 A.M. ET on
May 21, 2003 at:

One Federal Street
7th Floor
Boston, MA 02110

Chairman of the Board

Robert M. Halperin
Retired Vice Chairman and
President Raychem Corporation

Board of Directors

Charles T. Brumback
Retired Chairman and
Chief Executive Officer
Tribune Company

Dr. John V. Gutttag
Professor and Department Head,
Department of Electrical
Engineering and Computer
Science, Massachusetts Institute
of Technology

Nancy Hawthorne
Chairperson and
Chief Executive Officer
Clerestory, LLC

David A. Krall
President and
Chief Executive Officer
Avid Technology, Inc.

Pamela F. Lenehan
President
Ridge Hill Consulting LLC.

William J. Warner
President, Future Boston, Inc.
Founder, Avid Technology, Inc.

Corporate Management

David A. Krall
President and
Chief Executive Officer

Paul J. Milbury
Vice President and
Chief Financial Officer

Ethan E. Jacks
Vice President
Business Development
and Chief Legal Officer

Charles L. Smith
Vice President
Worldwide Sales,
Marketing and Service

Trish Baker
Vice President
Human Resources

Joseph Bentivegna
Vice President
Video Development
and Operations

David M. Lebolt
Vice President and
General Manager,
Digidesign

Michael J. Rockwell
Chief Technology Officer

Michael Stojda
Managing Director,
Softimage

Carol L. Reid
Vice President and
Corporate Controller



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Worldwide Offices

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Iver Heath	Santa Monica
London	Seoul
Los Angeles	Singapore
Madison	Tewksbury
Madrid	Tokyo
Montreal	Toronto
Munich	Washington, D.C.