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

May 14, 2002

Securities and Exchange Commission
450 Fifth Street, N.W.
Judiciary Plaza
Washington, DC 20549

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

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 Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2002.

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

Very truly yours,

/s/ Carol E. Kazmer

Carol E. Kazmer
General Counsel

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly period ended March 31, 2002

Commission File Number 0-21174

AVID TECHNOLOGY, INC.
(Exact name of registrant as specified in its charter)

Delaware	04-2977748
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Avid Technology Park
One Park West
Tewksbury, MA 01876
(Address of principal executive offices)

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

Indicate by check mark whether the registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports).

Yes X No _____

Indicate by check mark whether the registrant has been subject to such filing requirements for the past 90 days.

Yes X No _____

The number of shares outstanding of the registrant's Common Stock as of May 8, 2002 was 26,243,207.

AVID TECHNOLOGY, INC.

FORM 10-Q

For the Quarterly Period Ended March 31, 2002

TABLE OF CONTENTS

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

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

	Three Months Ended March 31,	
	2002	2001
	(unaudited)	(unaudited)
Net revenues	$92,009	$118,133
Cost of revenues	47,715	56,513
Gross profit	44,294	61,620
Operating expenses:		
Research and development	19,818	23,273
Marketing and selling	22,966	29,746
General and administrative	4,513	6,967
Restructuring and other costs, net		364
Amortization of acquisition-related intangible assets	346	12,420
Total operating expenses	47,643	72,770
Operating loss	(3,349)	(11,150)
Other income (expense), net	265	1,496
Loss before income taxes	(3,084)	(9,654)
Provision for income taxes	600	800
Net loss	($3,684)	($10,454)
Net loss per common share - basic and diluted	($0.14)	($0.41)
Weighted average common shares outstanding - basic and diluted	26,029	25,348

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

AVID TECHNOLOGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 2002	December 31, 2001
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$28,891	$45,613
Marketable securities	24,644	27,348
Accounts receivable, net of allowances of $10,603 and $11,497 at March 31, 2002 and December 31, 2001, respectively	77,863	78,010
Inventories	24,968	21,690
Deferred tax assets, net	677	695
Prepaid expenses	7,600	6,722
Other current assets	3,314	3,440
Total current assets	167,957	183,518
Property and equipment, net	25,877	27,164
Acquisition-related intangible assets, net	2,026	3,462
Goodwill	1,087	
Other assets	1,504	1,662
Total assets	$198,451	$215,806
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$20,242	$19,076
Accrued compensation and benefits	12,058	13,023
Accrued expenses and other current liabilities	20,080	26,125
Income taxes payable	9,521	10,932
Deferred revenues	33,933	28,872
Total current liabilities	95,834	98,028
Long-term debt	-	13,020
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock		
Common stock	266	266
Additional paid-in capital	356,666	357,446
Accumulated deficit	(240,563)	(235,926)
Treasury stock	(4,817)	(8,035)
Deferred compensation	(773)	(1,294)
Accumulated other comprehensive loss	(8,162)	(7,699)
Total stockholders' equity	102,617	104,758
Total liabilities and stockholders' equity	$198,451	$215,806

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

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

	Three Months Ended March 31,	
	2002	2001
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	($3,684)	($10,454)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,612	16,315
Provision for doubtful accounts		132
Compensation from stock grants and options	517	926
Equity in income of non-consolidated companies	(52)	(1,084)
Changes in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	(346)	9,049
Inventories	(3,298)	(3,275)
Prepaid expenses and other current assets	(807)	(2,060)
Accounts payable	1,282	(5,103)
Income taxes payable	(1,425)	(1,162)
Accrued expenses, compensation and benefits and other current liabilities	(5,520)	(10,591)
Deferred revenues	5,082	90
NET CASH USED IN OPERATING ACTIVITIES	(4,639)	(7,217)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(3,222)	(2,686)
Payments for other long-term assets		(40)
Dividend from non-consolidated company	59	
Payments for business acquisition, net of cash acquired		(5,439)
Payment on note issued in connection with acquisition	(13,020)	
Purchase of marketable securities	(12,219)	(8,632)
Proceeds from sales of marketable securities	14,893	10,044
NET CASH USED IN INVESTING ACTIVITIES	(13,509)	(6,753)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of common stock for treasury		(4,155)
Proceeds from issuance of common stock	1,491	2,440
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,491	(1,715)
Effects of exchange rate changes on cash and cash equivalents	(65)	(1,316)
Net decrease in cash and cash equivalents	(16,722)	(17,001)
Cash and cash equivalents at beginning of period	45,613	64,875
Cash and cash equivalents at end of period	$28,891	$47,874

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

PART I. FINANCIAL INFORMATION
ITEM 1D. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. FINANCIAL INFORMATION

The accompanying condensed consolidated financial statements include the accounts of Avid Technology, Inc. and its wholly owned subsidiaries (collectively, "Avid" or the "Company"). These financial statements are unaudited. However, in the opinion of management, the condensed consolidated financial statements include all adjustments, consisting of only normal, recurring adjustments, necessary for their fair presentation. Interim results are not necessarily indicative of results expected for a full year. The accompanying unaudited condensed financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include all information and footnotes necessary for a complete presentation of operations, the financial position, and cash flows of the Company, in conformity with generally accepted accounting principles. The Company filed audited consolidated financial statements for the year ended December 31, 2001 on Form 10-K, which included all information and footnotes necessary for such presentation.

The Company's preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported 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 reflected in these financial statements include accounts receivable and sales allowances, inventory valuation and income tax valuation allowances. Actual results could differ from those estimates.

2. NET LOSS PER COMMON SHARE

Diluted net loss per share for the three-month periods ended March 31, 2002 and 2001 excludes the weighted-average effect of dilutive options and warrants to purchase 647,377 and 2,194,245 weighted shares of common stock outstanding, respectively. Inclusion of these options and warrants would be anti-dilutive for each of these periods.

3. INVENTORIES

Inventories consist of the following (in thousands):

	March 31, 2002	December 31, 2001
Raw materials	$11,990	$13,043
Work in process	3,429	2,553
Finished goods	9,549	6,094
	$24,968	$21,690

4. INVESTMENT IN JOINT VENTURE

In January 1999, Avid and Tektronix, Inc. established a 50/50 owned and funded newsroom computer system joint venture, AvStar Systems LLC ("AvStar"). The joint venture was dedicated to providing the next generation of newsroom computer systems products by combining both companies' newsroom computer systems technology and certain personnel. In September 1999, Tektronix transferred its interest in AvStar to a third party, The Grass Valley Group, Inc. (now a unit of Thomson Multimedia). The Company's investment in the joint venture was accounted for under the equity method of accounting. The pro rata share of earnings of the joint venture recorded by the Company during the quarter ended March 31, 2001 was approximately $1.1 million. Beginning in September 2000, AvStar has been doing business as iNews, LLC.

In January 2001, the Company acquired Grass Valley Group's 50% interest in iNews for approximately $6.0 million. This acquisition was accounted for under the purchase method of accounting. Accordingly, the assets and liabilities that represented the acquired 50% interest were recorded in the Company's financial statements as of the acquisition date based on their fair values, while the assets and liabilities that represented Avid's investment in the joint venture were recorded as of the acquisition date based on the book values of the joint venture's assets and liabilities without adjustment. Since the acquisition date, operating results of iNews have been included in the consolidated operating results of the Company. The purchase price of $6.0 million has been allocated to net tangible assets of $1.7 million, completed technologies of $2.5 million and work force of $1.8 million. The Company recorded amortization on these intangibles of $0.2 million in the quarter ended March 31, 2002. In connection with the adoption of SFAS 142, the Company reclassified to goodwill $1.1 million of the remaining acquired work force.

5. GOODWILL AND INTANGIBLE ASSETS

In June 2001, the FASB issued Statement of Accounting Standard No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets." SFAS 142 supersedes APB Opinion No. 17 "Intangible Assets" and is effective for the Company on January 1, 2002. SFAS 142 addresses how acquired goodwill and other intangible assets should be accounted for in financial statements subsequent to their initial recognition. The provisions of SFAS 142 (1) prohibit the amortization of goodwill and indefinite-lived intangible assets, (2) require that goodwill and indefinite-lived intangible assets be tested annually for impairment (and in interim periods if certain events occur indicating that the carrying value of goodwill and/or indefinite-lived intangible assets may be impaired), (3) require that reporting units be identified for the purposes of assessing potential future impairments of goodwill and (4) remove the forty-year limitation on the amortization period of intangible assets that have finite lives. Additionally, SFAS 142 provides guidance about how to determine and measure goodwill impairment and requires disclosure of information about goodwill and other intangible assets in the years subsequent to their acquisition.

The Company adopted SFAS 142 on January 1, 2002, and is in the process of making the determinations as to what its reporting units are and what amounts of goodwill and intangible assets should be allocated to those reporting units. Once the reporting units are determined, the Company will complete its transitional impairment review by June 30, 2002 in accordance with SFAS 142. If the Company determines that its reporting units are consistent with the Company's disclosed operating segments, acquired intangible assets and goodwill will be allocated to the Video and Film Editing and Effects segment. In connection with the adoption of SFAS 142, the Company reclassified to goodwill $1.1 million representing the remaining value of acquired work force from the iNews acquisition and, as a result, ceased amortizing this amount; prior to this reclassification the Company had no unamortized goodwill.

Intangible assets at March 31, 2002 and December 31, 2001 consisted only of completed technology with a gross carrying amount of $5.9 million. The related accumulated amortization was $3.9 million and $3.5 million at March 31, 2002 and December 31, 2002, respectively. Completed technology is amortized on a straight-line basis over periods ranging from 3 to 4.5 years. The Company expects annual amortization to be approximately $1.1 million during 2002, $1.0 million during 2003, and $0.3 million during 2004.

The following summary reflects the pro forma results of operations as if SFAS 142 had been applicable as of January 1, 2001 (in thousands, except per share amounts):

	For the Three Months Ended March 31,	
	2002	2001
Reported net loss	($3,684)	($10,454)
Goodwill amortization		9,912
Amortization of work force		1,046
Pro forma net income (loss)	($3,684)	$504
Basic net income (loss) per share:		
As reported	($0.14)	($0.41)
Pro forma	($0.14)	$0.02
Weighted average common shares outstanding - basic	26,029	25,348
Diluted net income (loss) per share:		
As reported	($0.14)	($0.41)
Pro forma	($0.14)	$0.02
Weighted average common shares outstanding - diluted	26,029	27,543

6. LONG-TERM DEBT AND OTHER LIABILITIES

In connection with the acquisition of Softimage Inc. ("Softimage"), Avid issued a $5.0 million subordinated note (the "Note") to Microsoft Corporation ("Microsoft"). The principal amount of the Note, including any adjustments relative to unvested Avid stock options forfeited by Softimage employees plus all unpaid accrued interest, was due on June 15, 2003. The Note bore interest at 9.5% per year, payable quarterly. During 1999, the Company made a principal payment of $8.0 million. On February 6, 2002, the Company made a payment of approximately $13.0 million in full satisfaction of the Company's outstanding note to Microsoft. The Company made cash payments for interest during the quarters ended March 31, 2002 and 2001 of $20,000 and $0.3 million, respectively.

7. CONTINGENCIES

On June 7, 1995, Avid filed a patent infringement complaint in the United States District Court for the District of Massachusetts against Data Translation, Inc. (now known as Media 100), a Marlboro, Massachusetts-based company. Avid is seeking judgment against Media 100 that, among other things, Media 100 willfully infringed Avid's U.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 Media 100. 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.

On March 11, 1996, Avid was named as a defendant in a patent infringement suit filed in the United States District Court for the Western District of Texas by Combined Logic Company, a California partnership located in Beverly Hills, California. On May 16, 1996, 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, and seeks injunctive relief, treble damages and costs, and attorneys' fees. Avid 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.

In March 1999, Avid and Tektronix, Inc. were sued by Glen Holly Entertainment, Inc., a Tektronix distributor, claiming that Tektronix's discontinuance of the Tektronix Lightworks product line was the result of a strategic alliance by Tektronix and Avid. Glen Holly raised antitrust and common law claims against the Company and Tektronix, and sought lost future profits, treble damages, attorneys' fees, and interest. All of the claims against the Company and Tektronix were dismissed by the lower court. Glen Holly is appealing the lower court's decision. Avid views the complaint and appeal as without merit and intends to defend itself 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.

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

8. COMPREHENSIVE LOSS

Total comprehensive loss, net of taxes, was approximately $4.1 million and $12.4 million for the three-month periods ended March 31, 2002 and 2001, respectively, which consists of net loss, the net changes in foreign currency translation adjustment and the net unrealized gains and losses on available-for-sale securities.

9. SEGMENT INFORMATION

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

	For the Three Months Ended March 31,	
	2002	2001
Video and Film Editing and Effects:		
Net revenues	$59,749	$87,332
Operating loss	($6,238)	($2,056)
Professional Audio:		
Net revenues	$32,260	$30,801
Operating income	$3,235	$3,690
Combined Segments:		
Net revenues	$92,009	$118,133
Operating income (loss)	($3,003)	$1,634

The following table reconciles operating income (loss) for reportable segments to total consolidated amounts for the quarters ended March 31, 2002 and 2001 (in thousands):

	For the Three Months Ended March 31,	
	2002	2001
Total operating income (loss) for reportable segments	($3,003)	$1,634
Unallocated amounts:		
Amortization of acquisition-related intangible assets	(346)	(12,420)
Restructuring and other costs, net		(364)
Consolidated operating loss	($3,349)	($11,150)

10. RESTRUCTURING AND OTHER COSTS, NET

In March 2001, the Company implemented a restructuring plan related to its Softimage operations. As a result, the Company terminated 47 employees, primarily in Montreal, Cananda, and vacated a leased facility in California. In connection with this plan, the Company recorded a $1.3 million restructuring charge during the first quarter of 2001. The restructuring charge included approximately $1.1 million for severance and related costs of terminated employees and $0.2 million for facility vacancy costs, including a non-cancelable lease commitment.

The following table sets forth the activity in the restructuring accrual accounts for the three months ended March 31, 2002 (in thousands):

	Employee Related	Facilities Related	Total
Accrual balance at December 31, 2001	$1,471	$3,619	$5,090
Non-cash charges		(1,030)	(1,030)
Cash payments	(576)	(433)	(1,009)
Accrual balance at March 31, 2002	$895	$2,156	$3,051

Related to the August 2001 restructuring plan, in the first quarter of 2002, the Company wrote off leasehold improvements of approximately $1.0 million related to a facility vacated during the quarter. The Company expects that the majority of the remaining $0.9 million employee-related accrual balance will be expended over the next nine months and will be funded from working capital. The majority of the facilities-related accrual represents estimated losses on subleases of space vacated as part of 1999 and 2001 restructuring actions. The leases and lease payment requirements extend through 2010, unless the Company is able to negotiate an earlier termination.

In December 1999, the Company entered into an agreement to sell its Italian subsidiary to a third party, which established the entity as a distributor of Avid products. The sale was completed in the first quarter of 2000. The Company incurred and recorded a loss of approximately $2.0 million relating to the sale, including a reserve of $1.0 million for the Company's guarantee of the new entity's line of credit with a bank. This guarantee ended on January 31, 2001 without requiring any cash payment by Avid. Accordingly, in the quarter ended March 31, 2001, the Company recorded a credit of $1.0 million associated with the reversal of the reserve, which was included under the caption restructuring and other costs, net, where the charge had originally been recorded.

11. RECENT ACCOUNTING PRONOUNCEMENTS

On January 1, 2002, the Company adopted SFAS 142, "Goodwill and Other Intangible Assets" (see Note 5) and SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). The objectives of SFAS 144 are to address significant issues relating to the implementation of SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and to develop a single accounting model, based on the framework established by SFAS 121, for long-lived assets to be disposed of by sale. The adoption of SFAS 144 did not have any impact on the Company's financial position or results of operations.

PART I. FINANCIAL INFORMATION

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

OVERVIEW

The Company develops, markets, sells and supports a wide range of software, and hardware and software systems, for digital media production, management and distribution. Digital media are media elements, whether video, audio or graphics, in which the image, sound or picture is recorded and stored as digital values, as opposed to analog, or tape-based, signals. Our product and service offerings enable customers to "Make, Manage and Move Media."

Make Media. To make media, we offer digital, non-linear video and film editing systems to enable customers to edit moving pictures and sound in a faster, easier, more creative, and more cost-effective manner than by use of traditional analog tape-based systems. (Non-linear systems allow editors to access material as needed rather than requiring them to work sequentially.) To complement these non-linear editing systems, we develop and sell 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 shows and advertising, and news programs. The products include 3D and special effects software products from our Softimage subsidiary. We also offer digital audio systems through our Digidesign division. Digidesign's audio systems have applications in music, film, television, video, broadcast, streaming media, and web development. These systems are based upon proprietary Digidesign/Avid audio hardware, software, and control surfaces, and permit users to record, edit, mix, process, and master audio in an integrated manner.

Manage Media. We provide complete network, storage, and database solutions based on our Avid Unity MediaNet technology. This technology enables users to share and manage media assets throughout a project or organization. The ability to effectively manage digital media assets is a critical component of success for many broadcast and media companies with multiple product lines and geographic locations. Accordingly, we have designed our products to work together in the network, storage, and database environment, allowing for the sharing of data and increasing the effectiveness of our customers' workflow. Our key technologies help our customers to reduce costs and increase the value of their media assets by letting them easily and quickly "repurpose" or find new uses or markets for their assets.

Move Media. We offer products that allow customers to distribute their final product. We believe that the Internet will gradually become a critical content distribution channel. We have developed and sell Internet infrastructure products to support the broadcast of streaming Internet video, and continue to integrate new capabilities into our core products designed for the Internet environment, enabling Internet publishing and Internet video and audio streaming capabilities. In addition, we provide technology for playback directly to air for broadcast television applications.

Our products are used worldwide in production and post-production facilities, film studios, network, affiliate, independent and cable television stations, recording studios, advertising agencies, government and educational institutions, corporate communication departments, and by game developers and Internet professionals. Projects produced using our products--from major motion pictures and prime-time television to music, video, and marquee recording artists--have been honored with Oscar(R), Emmy(R), and Grammy(R) awards, as well as a host of other international awards. (Oscar is a registered trademark and service mark of the Academy of Motion Picture Arts and Sciences. Emmy is a registered trademark of ATAS/NATAS. Grammy is a registered trademark of The National Academy of Recording Arts and Sciences, Inc.)

RESULTS OF OPERATIONS

In January 2001, the Company acquired the remaining 50% ownership interest in iNews, which was formerly held by The Grass Valley Group, Inc. (now, a unit of Thomson Multimedia). Since the acquisition date, operating results of iNews have been included in our consolidated operating results. Prior to that date, our share of the operating results of iNews was included in other income (expense).

Net Revenues

The Company's net revenues have been derived mainly from the sales of computer-based digital, nonlinear media editing systems and related peripherals, licensing of related software, and sales of software maintenance contracts. This market has been, and is expected to continue to be, highly competitive. A significant portion of these revenues are generated by sales near the end of each quarter, which can impact our ability to precisely forecast revenues on a quarterly basis.

Net revenues decreased to $92.0 million in the quarter ended March 31, 2002 from $118.1 million in the same quarter of last year. This decrease occurred across most product families in our Video and Film Editing and Effects ("Video") business. We believe that a portion of this decline was due to the general worldwide economic slowdown, and if this slowdown continues, it may impact our future revenues as well. More specifically, we believe that weakness in advertising spending worldwide has had a negative impact on our post-production video business, causing our customers to reduce capital spending pending an upturn in their businesses. Revenue was also adversely impacted by pricing reductions and discounts. Certain product families within the Video segment, in particular Avid Xpress DV and Avid|DS HD (introduced in early 2001), showed sequential growth in revenue in the quarter ended March 31, 2002 due to higher unit volume. Additionally, in January 2002, our Professional Audio ("Audio") business introduced Pro Tools|HD, which also contributed favorably to revenues. These increases in revenue were more than offset by declines in revenue from our other product families, most notably Media Composer in our video segment. Also contributing to the decline for the quarter ended March 31, 2002 versus the same quarter a year ago was an adverse currency effect of $1.9 million (assuming prior quarter revenues were expressed at current quarter exchange rates).

Net revenues derived through indirect channels (primarily resellers and distributors) were approximately 82% and 83% of net revenue for each of the three-month periods ended March 31, 2002 and 2001, respectively.

Sales in the Americas accounted for 55% and 51% of the Company's first quarter 2002 and 2001 net revenues, respectively. Americas sales for the three months ended March 31, 2002 decreased by approximately $9.6 million or 16% compared to the same period in 2001. Sales in the Europe and Asia Pacific regions accounted for 45% and 49% of the Company's first quarter 2002 and 2001 net revenues, respectively. Europe and Asia Pacific sales for the three months ended March 31, 2002 decreased by approximately $16.5 million or 29% compared to the same period in 2001.

Gross Profit

Cost of revenues consists primarily of costs associated with the procurement of components; the assembly, test and distribution of finished products; warehousing; post-sales customer support costs; royalties for third-party software included in the products; and provisions for inventory obsolescence. The resulting gross profit fluctuates based on factors such as the mix of products sold, the cost and proportion of third-party hardware and software included in the systems sold, the offering of product upgrades, price discounts and other sales promotion programs, the distribution channels through which products are sold, the timing of new product introductions, sales of after market hardware products, and currency exchange rate fluctuations.

Gross margin decreased to 48.1% in the first quarter of 2002 compared to 52.2% in the same period of 2001. The decrease was primarily due to pricing reductions and discounts, under absorption of overhead from lower than expected revenues, and the negative impact of currency fluctuations, primarily a weakening of the Japanese yen, and to a lesser extent the euro. These decreases were partially offset by, among other factors, a more favorable product mix of higher margin sales.

Research and Development

Research and development expenses decreased by $3.5 million (14.8%) in the first quarter of 2002 compared to the same period in 2001. The decrease was primarily the result of reduced personnel and other restructuring actions implemented later in 2001, partially offset by an increase in hardware development expense. Due to a lower revenue base in 2002, research and development expenses increased as a percentage of net revenues to 21.5% in the first quarter of 2002 from 19.7% for the same period in 2001.

Marketing and Selling

Marketing and selling expenses decreased by approximately $6.8 million (22.8%) in the first quarter of 2002 compared to the same period in 2001 primarily due to restructuring actions implemented later in 2001. The most significant spending reductions realized during 2002 were in marketing program spending and personnel related costs. Due to a lower revenue base in 2002, marketing and selling expenses decreased only slightly as a percentage of net revenues to 25.0% in the first quarter of 2002 from 25.2% for the same period in 2001. The Company expects the second quarter 2002 expenses for marketing and selling to be higher than those incurred in the first quarter due to expenses associated with the National Association of Broadcasters trade show, which occurs in the second quarter.

General and Administrative

General and administrative expenses decreased by approximately $2.5 million (35.2%) in the first quarter of 2002 compared to the same period in 2001. This decrease was primarily the result of reduced fees for professional legal services and a reduction in personnel related costs due to staff reductions. General and administrative expenses decreased as a percentage of net revenues to 4.9% in the first quarter of 2002 from 5.9% for the same period in 2001. This percentage decrease was primarily due to the decrease in general and administrative expenses noted above, partially offset by a lower revenue base in 2002.

Restructuring and Other Costs, Net

In March 2001, the Company implemented a restructuring plan related to the Softimage operations. As a result, 47 employees were terminated, primarily in Montreal, Canada, and the Company vacated a leased facility in California. In connection with this plan, the Company recorded a $1.3 million restructuring charge during the first quarter of 2001. The restructuring charge included approximately $1.1 million for severance and related costs of terminated employees and $0.2 million for facility vacancy costs, including a non-cancelable lease commitment.

In December 1999, the Company entered into an agreement to sell its Italian subsidiary to a third party, which established the entity as a distributor of Avid products. The sale was completed in the first quarter of 2000. The Company incurred and recorded a loss of approximately $2.0 million relating to the sale, including a reserve of $1.0 million for the Company's guarantee of the new entity's line of credit with a bank. This guarantee ended on January 31, 2001 without requiring any cash payment by Avid. Accordingly, in the quarter ended March 31, 2001, the Company recorded a credit of $1.0 million associated with the reversal of the reserve, which was included under the caption restructuring and other costs, net, where the charge was originally recorded.

Amortization of Acquisition-Related Intangible Assets

In connection with the August 1998 acquisition of the business of Softimage, the Company allocated $88.2 million of the total purchase price of $247.9 million to intangible assets, consisting of completed technologies, work force and trade name, and $127.8 million to goodwill. During the second and third quarters of 2000 and the first quarter of 2001, the Company recorded additional intangible assets as it acquired three smaller companies, The Motion Factory, Inc., Pluto Technologies International Inc. and iNews, LLC. In connection with these acquisitions, the Company allocated $6.5 million to intangible assets consisting of completed technologies and work force. Results for the quarters ended March 31, 2002 and 2001 reflect amortization of $0.3 million and $12.4 million, respectively, associated with these acquisition-related intangible assets.

As of January 1, 2002, in connection with the adoption of SFAS 142, the Company reclassified $1.1 million of previously recorded acquired work force to goodwill and, as a result, ceased amortizing such amount. During the first quarter of 2002, the Company recorded no goodwill or acquired workforce amortization as compared to approximately $11.0 million in the same period in 2001.

Other Income (Expense), Net

Other income (expense), net, consists primarily of equity in the income of non-consolidated companies, interest income, and interest expense. Other income (expense), net, for the first quarter 2002 decreased $1.2 million to $0.3 million as compared to the same period in 2001. The decrease is mostly attributable to $1.1 million included in other income during the first quarter of 2001 related to the Company's equity in the income of iNews prior to the acquisition of the remaining ownership interest in that quarter.

Provision for Income Taxes

The Company recorded a tax provision of $0.6 million for the first quarter of 2002. This compares to a tax provision of $0.8 million recorded in the same period of last year. In general, these provisions were comprised of taxes payable by certain of the Company's foreign subsidiaries. No tax benefit was recorded on the losses before income taxes in the U.S.

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 March 31, 2002, the Company's principal sources of liquidity included cash, cash equivalents, and marketable securities totaling approximately $53.5 million.

Net cash used in operating activities was $4.6 million for the quarter ended March 31, 2002 compared to $7.2 million used in operating activities during the quarter ended March 31, 2001. During the quarter ended March 31, 2002, net cash used in operating activities primarily reflects the net loss adjusted for depreciation and amortization as well as a decrease in accrued expenses, and increases in inventories and deferred revenue. During the quarter ended March 31, 2001, net cash used in operating activities primarily reflects the net loss adjusted for depreciation and amortization as well as a decrease in accounts receivable (excluding receivables acquired as part of the iNews acquisition), accounts payable and accrued expenses, and increases in inventories and other current assets.

The Company purchased $3.2 million of property and equipment during the first quarter of 2002, compared to $2.7 million during the quarter ended March 31, 2001. In both of these periods, the purchases were primarily of hardware and software to support research and development activities and for the Company's information systems. During the quarter ended March 31, 2001, the Company also made a cash payment, net of cash acquired, of $5.4 million for the purchase of the remaining 50% of iNews. In February 2002, the Company made a payment of approximately $13.0 million in full satisfaction of the Company's outstanding note to Microsoft.

During the three months ended March 31, 2002 and 2001, the Company received cash proceeds of approximately $1.5 million and $2.4 million, respectively, from the issuance of common stock upon stock option exercises and under the Company's employee stock purchase plan.

During 1998, the Company announced that the board of directors had authorized the repurchase of up to 3.5 million shares of the Company's common stock. Purchases were made in the open market or in privately negotiated transactions. The Company has used, and plans to continue to use, any repurchased shares for its employee stock plans. During the first quarter of 2001, 232,000 shares were repurchased at a cost of approximately $4.2 million, which completed this stock buyback program.

The Company expects that the majority of the remaining $0.9 million employee-related restructuring accrual balance will be expended over the next nine months and will be funded from working capital. The majority of the $2.2 million facilities-related restructuring accrual represents estimated losses on subleases of space vacated as part of 1999 and 2001 restructuring actions. The leases and lease payment requirements extend through 2010, unless the Company is able to negotiate an earlier termination.

The Company believes existing cash, cash equivalents, marketable securities and internally generated funds will be sufficient to meet the Company's cash requirements for at least the next twelve months. In the event the Company requires additional financing, the Company believes that it will be able to obtain such financing; however, there can be no assurance that the Company would be successful in doing so, or that the Company could do so on favorable terms.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

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

Our future success will depend in part upon our ability to enhance our existing products and introduce new products in the digital editing market.

Our core digital video and film editing market predominantly uses Avid products, particularly Media Composer, which represents a significant portion of our revenues, and future growth in this market could therefore be limited. Our future growth will depend in part upon our ability to introduce new features and functionality for Media Composer, improve upon its price/performance, respond to competitive offerings, introduce and transition to new products, and adapt to new industry requirements and standards. Any delay or failure to develop these enhancements or to introduce other new products in this market could harm our business and reduce our operating results. At the same time, the introduction and transition to new products could have an impact on the market for our existing products, which could adversely affect our revenues and business.

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

We are currently building our presence in the broadcast market and have augmented our NewsCutter offering with the Avid Unity for News products, and with the server, newsroom, and browser products obtained in the Pluto and iNews acquisitions. Our broadcast strategy depends on the conversion of this market from analog to digital, which has proven to be slower than expected. Moreover, as a relatively new player in the broadcast market, we may encounter difficulties in establishing ourselves and developing a strong, loyal customer base. Meanwhile, our competitors may devote greater resources to the broadcast market than we do, or may be able to leverage their market presence more effectively. If the digital broadcast market continues to develop slowly, or we are unsuccessful in capturing a share of this market, our business and revenues could be adversely affected.

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

Currently, products of our Digidesign division have captured a significant portion of the professional audio market. Our future success will depend in part upon our ability to offer, on a timely and cost-effective basis, new audio products and enhancements of our existing audio products. The timely development of new or enhanced products is a complex and uncertain process, and we could experience design, manufacturing, marketing, or other difficulties that delay or prevent our development, introduction or marketing of new products or enhancements, which, in turn, could harm our business.

We are expanding our product line and our future revenues depend in part on the success of this expansion.

We are expanding our product line beyond our core video editing market to address the digital media production needs of the broadcast news market, including cable and Internet news, the on-line film and video finishing market, and the emerging market for multimedia production tools, including the Internet and corporate markets. We have limited experience in serving these markets and there can be no assurance that we will be able to develop such products successfully. To be successful, we will need to introduce new products, gain customer acceptance, and establish appropriate distribution and support channels. Any unexpected delays or additional costs that we incur in achieving these goals could harm our business and reduce our operating results.

Competition in the 3D animation market has increased dramatically since our acquisition of Softimage.

The animation market has changed significantly from the time when we acquired our Softimage subsidiary in August 1998. While Softimage once dominated the higher end of the 3D market (i.e., feature films and other intensive graphics applications), competitors' products have eroded Softimage's market share and have contributed to downward price pressure, which has resulted in reduced margins. In addition, we have experienced delays in introducing new products. Finally, revenues in recent years have been increasingly derived from sales to the games industry and non-traditional markets. If these non-traditional markets were to slow or delay their purchases of 3D tools, our revenues could be adversely affected. To the extent that these factors continue or worsen, our business could suffer.

We use independent firms and contractors to perform some of our product development activities.

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

Our products are complex and delays or difficulties in introducing new products could harm our business.

Our future success will depend in part on our ability to offer products that compete favorably with our competitors' products in terms of reliability, performance, ease of use, range of features, product enhancements, reputation, price, and training. Delays or difficulties in product development and introduction may harm our business. Our products are internally complex and, despite extensive testing and quality control, may contain errors or defects. Such errors or defects could cause us to issue corrective releases and could result in loss of revenues, increased product returns, lack of market acceptance, and damage to our reputation.

New product announcements by our competitors and by us could have the effect of reducing customer demand for our existing products. Some of our new products constitute upgrades of existing products. In the past, we have offered discounts on the price of such upgrades to existing customers, which, where appropriate, have been based upon the return of circuit boards and system keys. To the extent that such circuit boards and system keys are not returned, it can decrease the revenue generated by such new products. New product introductions require us to devote time and resources to training our sales channels in product features and target customers, with the temporary result that the sales channels have less time to devote to selling our products.

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

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

Our operating results are dependent on several unpredictable factors.

The revenue and gross profit on our products depend on many factors. Such factors include:

- mix of products sold;
- the cost and the proportion of third-party hardware included in such products;
- product distribution channels;
- timing of new product introductions;
- product offers and platform upgrades;
- price discounts and sales promotion programs;
- volume of sales of aftermarket hardware products;
- costs of swapping or fixing products released to the market with defects;
- provisions for inventory obsolescence;
- allocations of manufacturing overhead and customer support costs to cost of goods;
- sales of third-party computer hardware to distributors;
- competitive pressure on product prices; and
- currency fluctuations.

Negative changes in any of these factors could reduce our revenue and gross profit.

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

Our operating expense levels are based, in part, on our expectations of future revenues. Such future revenues are difficult to predict. For example, the current worldwide economic slowdown has had an impact on our recent results, and if this slowdown persists, it may continue to lower our revenues. Additionally, a significant portion of our business occurs near the end of each quarter, which can impact our ability to precisely forecast revenues on a quarterly basis. Further, we are generally unable to reduce quarterly operating expense levels rapidly in the event that quarterly revenue levels fail to meet internal expectations. Therefore, if quarterly revenue levels fail to meet internal expectations upon which expense levels are based, our results of operations could be lower than we had anticipated.

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

The digital video, audio, and animation markets are competitive, with limited barriers to entry, and are characterized by pressure to reduce prices, incorporate new features, and accelerate the release of new products. Many of our current and potential competitors have substantially greater financial, technical, distribution, support, and marketing resources than we do. Such competitors may use these resources to lower their product costs and thus be able to lower prices to levels at which we could not operate profitably. Further, such competitors may be able to develop products comparable or superior to ours, or adapt more quickly to new technologies or evolving customer requirements. If we are unable to compete effectively in our target markets, our business and results of operations could suffer.

Poor global macroeconomic conditions could disproportionately impact our industry.

As a result of unfavorable economic conditions and reduced capital spending, our customers in the media, broadcast and content-creation industries have delayed or reduced expenditures. The revenue growth and profitability of our business depends primarily on the overall demand for our products. Softening demand for our products resulting from ongoing economic uncertainty may result in decreased revenues or earnings levels or growth rates. If global economic conditions worsen, demand for our products may weaken, and our business and results of operations could suffer.

We depend on a number of sole source suppliers.

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

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

We sell many of our products and services indirectly through resellers and distributors. These resellers and distributors typically purchase software and "kits" from us, and other turnkey components from other vendors, in order to produce complete systems for resale. Any disruption to our resellers and distributors, or their third-party suppliers, could reduce our revenues. Moreover, we are increasingly distributing our products directly, which could put us in competition with our resellers and distributors and could adversely affect our revenues.

If we become dependent on third-party hardware for our products, our operating results could be harmed.

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

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

Our success depends upon the services of a number of key current employees. The loss of the services of one or more of these key employees could harm our business. Our success also depends upon our ability to attract highly skilled new employees. Competition for such employees is intense in the industries and geographic areas in which we operate. If we are unable to compete successfully for such employees, our business could suffer.

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

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

Regulations could be enacted that restrict our Internet initiatives and result in slowing our future growth.

As a result of the increasing use and popularity of the Internet, federal, state, and local authorities may adopt new laws and regulations governing the Internet. These laws and regulations may cover issues such as privacy, distribution, and content. The enactment of any additional laws or regulations could impede the growth of the Internet, harm our Internet initiatives, and place additional financial burdens on our business.

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

Our ability to compete successfully and achieve future revenue growth will depend, in part, on our ability to protect our proprietary technology and operate without infringing upon the rights of others. We rely upon a combination of patent, copyright, and trademark laws, trade secret, confidentiality procedures, and contractual provisions, as well as hardware security keys, to protect our proprietary technology. However, our means of protecting our proprietary rights may not be adequate. From time to time unauthorized persons have obtained, copied, and used information that we consider proprietary. Policing the unauthorized use of our proprietary technology is costly and time-consuming, and software piracy can be expected to be a persistent problem.

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

We are currently involved in various legal proceedings, including patent litigation. An adverse resolution of any such proceedings could harm our business and reduce our results of operations. See Note 7, "Commitments and Contingencies" in the Company's unaudited quarterly financial statements.

If we acquire other companies or businesses, we will be subject to risks that could hurt our business.

We periodically acquire businesses, form strategic alliances, or make debt or equity investments. The risks associated with such acquisitions, alliances, and investments include, among others, the difficulty of assimilating the operations and personnel of the target companies, the failure to realize anticipated return on investment, cost savings and synergies, and the diversion of management's time and attention. Such acquisitions, alliances, and investments often involve significant transaction-related costs and cause short-term disruption to normal operations. If we are unable to overcome or counter these risks, it could undermine our business and lower our operating results.

Our operating results could be harmed by currency fluctuations.

A significant portion of our business is conducted in currencies other than the U.S. dollar. Accordingly, changes in the value of major foreign currencies (including the euro, the British pound, and the Japanese yen) relative to the value of the U.S. dollar could lower future revenues and operating results.

Our stock price may continue to be volatile.

The market price of our common stock has been volatile in the recent past and could fluctuate substantially in the future based upon a number of factors, some of which are beyond our control. These factors include:

- changes in our quarterly operating results;
- shortfalls in revenues or earnings compared to securities analysts' expectations;
- changes in analysts' recommendations or projections;
- fluctuations in investors' perceptions of us or our competitors;
- shifts in the markets for our products;
- development and marketing of products by our competitors;
- changes in our relationships with suppliers, distributors, resellers, system integrators, or customers; and
- continuing repercussions of the September 11, 2001 national tragedy.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Market Risk

The Company's primary exposures to market risk are the effect of volatility in currencies on asset and liability positions of our international subsidiaries that are denominated in foreign currencies, and the effect of fluctuations in interest rates earned on our cash equivalents and marketable securities.

Foreign Currency Exchange Risk

The Company derives approximately 50% of its revenues from customers outside the United States. This business is, for the most part, transacted through international subsidiaries and generally in the currency of the end user customers. This circumstance exposes the Company to risks associated with changes in foreign currency that can impact revenues, net income (loss) and cash flow. The Company enters into foreign currency forward-exchange contracts to hedge the foreign exchange exposure of certain forecasted receivables, payables and cash balances of its foreign subsidiaries. Gains and losses associated with currency rate changes on the contracts are recorded in results of operations, offsetting gains and losses on the related assets and liabilities. The success of this hedging program depends on forecasts of transaction activity in the various currencies. To the extent that these forecasts are over- or understated during the periods of currency volatility, the Company could experience unanticipated currency gains or losses.

At March 31, 2002, the Company had $26.4 million of forward-exchange contracts outstanding, denominated in euros, British pounds, Japanese yen, Canadian dollars and Australian dollars, as a hedge against forecasted foreign currency-denominated receivables, payables and cash balances. For the three-month period ended March 31, 2002, net gains of $0.2 million resulting from forward-exchange contracts were recorded, which partially offset net transaction losses of $0.3 million on the related assets and liabilities. A hypothetical 10% change in foreign currency rates would not have a material impact on the Company's results of operations, assuming the above-mentioned forecast of foreign currency exposure is accurate, because the impact on the forward contracts as a result of a 10% change would at least partially offset the impact on the asset and liability positions of the Company's foreign subsidiaries.

Interest Rate Risk

At March 31, 2002, the Company held $53.5 million in cash, cash equivalents and marketable securities, including short-term government and government agency obligations. Marketable securities are classified as "available for sale" and are recorded on the balance sheet at market value, with any unrealized gain or loss recorded in accumulated other comprehensive income (loss). A hypothetical 10% increase or decrease in interest rates would not have a material impact on the fair market value of these instruments due to their short maturity.

PART II. OTHER INFORMATION

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

(b) REPORTS ON FORM 8-K. For the fiscal quarter ended March 31, 2002, the Company filed no current reports on Form 8-K.

Signatures

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

Avid Technology, Inc.

Date: May 14, 2002 By: /s/ Paul J. Milbury

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

Date: May 14, 2002 By: /s/ Carol L. Reid

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

EXHIBIT INDEX

Exhibit No.	Description	Page