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

November 13, 2001

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 September 30, 2001.

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 SEPTEMBER 30, 2001

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 November 1, 2001 was 26,038,958.

AVID TECHNOLOGY, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001 (unaudited)	2000 (unaudited)	2001 (unaudited)	2000 (unaudited)
Net revenues	$102,281	$121,292	$329,849	$349,946
Cost of revenues	50,444	60,303	160,473	171,495
Gross profit	51,837	60,989	169,376	178,451
Operating expenses:				
Research and development	19,630	20,890	64,785	61,160
Marketing and selling	27,614	29,989	88,880	89,909
General and administrative	5,299	6,070	17,699	21,083
Restructuring and other costs, net	8,303		8,549	
Amortization of acquisition-related intangible assets	5,088	14,862	30,640	54,454
Total operating expenses	65,934	71,811	210,553	226,606
Operating loss	(14,097)	(10,822)	(41,177)	(48,155)
Other income (expense), net	605	849	3,996	3,126
Loss before income taxes	(13,492)	(9,973)	(37,181)	(45,029)
Provision for income taxes	700	1,250	2,300	3,750
Net loss	($14,192)	($11,223)	($39,481)	($48,779)
Net loss per common share - basic and diluted	($0.55)	($0.45)	($1.55)	($1.99)
Weighted average common shares outstanding - basic and diluted	25,745	24,794	25,513	24,480

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

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

	September 30, 2001	December 31, 2000
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$63,004	$64,875
Marketable securities	13,413	18,331
Accounts receivable, net of allowances of $11,927 and $11,384 at September 30, 2001 and December 31, 2000, respectively	75,537	90,047
Inventories	21,667	21,102
Deferred tax assets	953	1,014
Prepaid expenses	7,636	6,102
Other current assets	3,276	4,634
Total current assets	185,486	206,105
Property and equipment, net	26,532	26,136
Acquisition-related intangible assets, net	3,993	30,316
Other assets	1,638	3,925
Total assets	$217,649	$266,482
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$17,665	$28,775
Accrued compensation and benefits	12,527	21,072
Accrued expenses	30,222	22,851
Income taxes payable	11,065	12,039
Other current liabilities	530	304
Deferred revenues	28,157	24,479
Total current liabilities	100,166	109,520
Long-term debt and other liabilities	13,594	13,449
Purchase consideration	463	5,663
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock		
Common stock	266	266
Additional paid-in capital	357,399	359,103
Accumulated deficit	(237,260)	(197,779)
Treasury stock	(8,439)	(15,622)
Deferred compensation	(1,872)	(4,752)
Accumulated other comprehensive loss	(6,668)	(3,366)
Total stockholders' equity	103,426	137,850
Total liabilities and stockholders' equity	$217,649	$266,482

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

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

	Nine Months Ended September 30,	
	2001	2000
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	($39,481)	($48,779)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	42,242	67,670
Provision for doubtful accounts	1,867	5,312
Compensation from stock grants and options	2,178	1,539
Equity in income of non-consolidated companies	(1,164)	(1,124)
Gain on sale of businesses	(2,272)	
Write-down of investment in non-consolidated company	1,100	
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	24,045	(18,230)
Inventories	(331)	(6,113)
Prepaid expenses and other current assets	(40)	3,494
Accounts payable	(12,158)	4,426
Income taxes payable	(817)	4,179
Accrued expenses, compensation and benefits	(6,190)	(9,344)
Deferred revenues	(1,349)	1,004
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,630	4,034
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(9,448)	(5,477)
Payments for other long-term assets	(361)	(306)
Collections of notes receivable from sale of business	333	
Investments in non-consolidated companies		(2,100)
Cash paid to acquire business, net of cash acquired	(5,439)	(1,990)
Purchases of marketable securities	(17,728)	(23,840)
Proceeds from sales of marketable securities	22,305	34,325
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(10,338)	612
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of common stock for treasury	(4,155)	(421)
Proceeds from issuance of common stock	5,289	6,694
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,134	6,273
Effects of exchange rate changes on cash and cash equivalents	(297)	(1,169)
Net increase (decrease) in cash and cash equivalents	(1,871)	9,750
Cash and cash equivalents at beginning of period	64,875	46,072
Cash and cash equivalents at end of period	$63,004	$55,822

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, 2000 on Form 10-K, which included all information and footnotes necessary for such 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 amounts 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, the recoverability of intangible assets including goodwill, and income tax valuation allowances. Actual results could differ from those estimates.

2. NET LOSS PER COMMON SHARE

Diluted net loss per share excluded options and warrants to purchase 8,806,358 and 5,849,495 weighted shares of common stock outstanding for the three- and nine-month periods ended September 30, 2001, respectively. Diluted net loss per share excluded options and warrants to purchase 6,080,430 and 6,354,606 weighted shares of common stock outstanding for the three- and nine-month periods ended September 30, 2000, respectively. Inclusion of these options and warrants would have been anti-dilutive for each of these periods.

3. INVENTORIES

Inventories consisted of the following (in thousands):

	September 30, 2001	December 31, 2000
Raw materials	$13,191	$14,082
Work in process	1,209	2,353
Finished goods	7,267	4,667
	$21,667	$21,102

4. INVESTMENT IN JOINT VENTURE AND ACQUISITIONS

During the second and third quarters of 2000, the Company acquired selected assets and liabilities of two companies, The Motion Factory, Inc. ("TMF") and Pluto Technologies International, Inc. ("Pluto"), respectively, for cash payments totaling approximately $2.0 million and guaranteed bonus payments of $0.3 million. TMF specializes in applications for the creation, delivery and playback of interactive-rich 3-D media for character-driven games and the web. Pluto is a provider of video storage and networking solutions for broadcast news, post-production and other bandwith-intensive markets. The acquisitions were accounted for using the purchase method of accounting. Accordingly, the fair market values of the acquired assets and assumed liabilities have been included in the Company's financial statements as of the acquisition dates, and the results of operations of TMF and Pluto have been included in the Company's financial statements thereafter. The purchase prices, aggregating $2.3 million, were allocated to net tangible assets of $0.1 million, completed technologies of $1.2 million and acquired work force of $1.0 million. As part of the purchase agreements, the Company may be required to make certain contingent cash payments, limited in the aggregate up to an additional $13.5 million, dependent upon future revenues and/or gross margin levels of products acquired from TMF and Pluto through December 2004. Any contingent payments will be recorded as additional purchase price, allocated to identifiable intangible assets or goodwill, as appropriate, and amortized over the remaining amortization period of the intangible asset or goodwill. The Company's pro forma statements of operations prior to the acquisitions would not differ materially from reported results.

In January 1999, Avid and Tektronix, Inc. ("Tektronix") 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. Since September 2000, AvStar has been doing business as iNews, LLC. The Company's investment in the joint venture was being 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 September 30, 2000 was approximately $0.2 million. The pro rata share of earnings of the joint venture recorded by the Company during the nine-month periods ended September 30, 2001 and 2000 were approximately $1.1 million and $1.0 million, respectively.

In January 2001, the Company acquired The 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 acquired 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 was allocated to net tangible assets of $1.7 million, completed technologies of $2.5 million and work force of $1.8 million. Identifiable intangible assets are being amortized on a straight-line basis over a three-year period.

The following table presents unaudited pro forma results as if Avid and iNews had been combined as of the beginning of the periods presented. The pro forma data are presented for illustrative purposes only and are not necessarily indicative of the combined financial position or results of operations of future periods or of results that actually would have occurred had Avid and iNews been a combined company for the periods presented.

Pro Forma Unaudited (in thousands, except per share amounts)

	Three Months Ended September 30, 2000	Nine Months Ended September 30,2000
Net revenue	$125,168	$363,230
Net loss	($11,672)	($49,068)
Net loss per common share - basic and diluted	($0.47)	($2.00)
Weighted average common shares outstanding - basic and diluted	24,794	24,480

Results for the quarters ended September 30, 2001 and 2000 reflect amortization of $5.1 million and $14.9 million, respectively, associated with these acquisition-related intangible assets. Results for the nine-month periods ended September 30, 2001 and 2000 reflect amortization of $30.6 million and $54.5 million, respectively, associated with these acquisition-related intangible assets. The unamortized balance of the intangible assets relating to these acquisitions, including goodwill, was $4.0 million at September 30, 2001. Approximately $0.5 million of additional amortization is expected through December 2001, with the remaining $3.5 million expected to be amortized through December 2004.

5. LONG-TERM DEBT AND OTHER LIABILITIES

In connection with the acquisition of Softimage, Avid issued a $5.0 million subordinated note (the "Note") to Microsoft Corporation. The principal amount of the Note, including any adjustments relative to unvested Avid stock options forfeited by Softimage employees plus all unpaid accrued interest, is due on June 15, 2003. The Note bears interest at 9.5% per annum, payable quarterly. As of September 30, 2001, the Note has been increased by approximately $16.0 million for forfeited Avid stock options. The Company made principal payments of approximately $8.0 million during 1999 resulting in a note balance of $13.0 million at September 30, 2001. The Company made interest payments during the three-month periods ended September 30, 2001 and 2000 of $0.3 million. The Company made interest payments during the nine-month periods ended September 30, 2001 and 2000 of $0.9 million and $0.7 million, respectively.

6. COMMITMENTS AND 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 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.

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, issued in 1981, 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 where 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.

7. COMPREHENSIVE LOSS

Total comprehensive loss, net of taxes, was approximately $14.6 million and $15.2 million for the three-month periods ended September 30, 2001 and 2000, respectively, and $42.8 million and $49.3 million for the nine-month periods ended September 30, 2001 and 2000, respectively. Total comprehensive loss consists of net loss, net changes in foreign currency translation adjustment and the net unrealized gains and losses on available-for-sale marketable securities.

8. SEGMENT INFORMATION

The Company's organizational structure is based on strategic business units that offer various products to the principal 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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Video and Film Editing and Effects:				
Net revenues	$76,807	$92,613	$244,047	$256,450
Operating income (loss)	($2,650)	$1,516	($10,662)	($13,676)
Professional Audio:				
Net revenues	$25,474	$28,679	$85,802	$93,496
Operating income	$1,944	$2,524	$8,674	$19,975
Combined Segments:				
Net revenues	$102,281	$121,292	$329,849	$349,946
Operating income (loss)	($706)	$4,040	($1,988)	$6,299

The following table reconciles operating income (loss) for reportable segments to total consolidated operating loss (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Total operating income (loss) for reportable segments	($706)	4,040	($1,988)	$6,299
Unallocated amounts:				
Amortization of acquisition-related intangible assets	(5,088)	(14,862)	(30,640)	(54,454)
Restructuring and other costs, net	(8,303)		(8,549)	
Consolidated operating loss	($14,097)	($10,822)	($41,177)	($48,155)

The unallocated amounts for all periods include the amortization of acquired intangible assets, including goodwill, associated primarily with the acquisition of Softimage. The unallocated amounts also include the net restructuring actions that the Company implemented in the three- and nine-month periods ended September 30, 2001.

9. RESTRUCTURING AND OTHER COSTS, NET

In 1999, the Company announced and implemented a restructuring plan to strategically refocus the Company and bring operating expenses in line with net revenues. The major elements of the restructuring plan included the termination of certain employees, the vacating of certain facilities and a decision not to provide any future releases of a limited number of existing products, including stand-alone Marquee, Avid Cinema, Media Illusion and Matador. In connection with this plan, the Company recorded a restructuring charge of $9.6 million, of which $0.6 million represented non-cash charges relating to the disposition of certain fixed assets.

On March 29, 2001, the Company announced a restructuring plan related to its Softimage operations. As a result, the Company terminated 47 employees, primarily in Montreal, Canada, and vacated a leased facility in California. In connection with this plan, the Company recorded a $1.4 million restructuring charge during the first quarter of 2001. The restructuring charge included approximately $1.2 million for severance and related costs of terminated employees and $0.2 million for facility vacancy costs, including a non-cancelable lease commitment. In June 2001, the Company implemented a restructuring plan related to its Avid Internet Solutions operations resulting in the termination of 7 employees and a restructuring charge of $0.2 million for severance and related costs.

In August 2001, the Company announced and implemented a restructuring plan to further decrease costs through the consolidation of operations and the reduction of approximately 140 jobs worldwide. In connection with this plan, the Company recorded a charge to operating expenses of $8.5 million in the third quarter. The restructuring charge included approximately $6.1 million for severance and related costs of terminated employees and $2.4 million for facility vacancy costs, of which $1.0 million represented non-cash charges relating to the disposition of leasehold improvements.

The following table sets forth the activity in the restructuring accrual accounts for the nine months ended September 30, 2001 (in thousands):

	Employee Related	Facilities Related	Total
Accrual balance at December 31, 2000	$399	$1,454	$1,853
Restructuring charge in March 2001	1,172	192	1,364
Cash payments	(114)	(59)	(173)
Accrual balance at March 31, 2001	1,457	1,587	3,044
Restructuring charge in June 2001	210		210
Cash payments	(1,192)	(160)	(1,352)
Revisions of estimated liabilities	(128)	128	-
Accrual balance at June 30, 2001	347	1,555	1,902
Restructuring charge in August 2001	6,065	2,433	8,498
Cash payments	(1,942)	(67)	(2,009)
Accrual balance at September 30, 2001	$4,470	$3,921	$8,391

The Company expects that the majority of the remaining $4.5 million employee-related accrual balance will be expended over the next six 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 the 1999 and 2001 restructuring actions. The leases extend through 2010 unless the Company is able to negotiate an earlier termination. Included in the facilities-related accrual is $1.0 million for the write-off of leasehold improvements which will be abandoned upon vacating the related properties in December 2001.

In December 1999, the Company entered into an agreement to sell its Italian subsidiary to a third party, who established the entity as a distributor of Avid products. The Company incurred a loss of approximately $2.0 million related 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. In addition, in the quarter ended June 30, 2001, the Company received a payment of $0.3 million under the note received as partial consideration from the buyers of the Italian subsidiary. This payment was recorded as a credit to restructuring and other costs, net, since the note was fully reserved when received. There was no activity related to the note in the third quarter of 2001. Any future payments to be received under the note will be similarly accounted for only when received.

In addition, in the quarter ended September 30, 2001, the Company recorded a credit of $0.2 million to restructuring and other costs, net, associated with a reduction in its estimated liability for executive severance related to a charge initially recorded in 1999.

10. SUPPLEMENTAL RECONCILIATION OF NET LOSS TO TAX-EFFECTED INCOME (LOSS) EXCLUDING NONRECURRING COSTS AND AMORTIZATION OF ACQUISITION-RELATED INTANGIBLE ASSETS

The following table presents a calculation of tax-effected income (loss) and diluted per share amounts excluding nonrecurring costs and amortization of acquisition-related intangible assets. The information is unaudited and is presented in order to enhance the comparability of the statements of operations for the periods presented.

(in thousands, except per share data)

	For the Three Months Ended September 30,	
	2001	2000
Net loss	($14,192)	($11,223)
Adjustments:		
Amortization of acquisition-related intangible assets	5,088	14,862
Nonrecurring costs	8,303	
Tax-effected income (loss) excluding nonrecurring costs and amortization of acquisition-related intangible assets	($801)	$3,639
Tax-effected income (loss) per diluted share excluding nonrecurring costs and amortization of acquisition-related intangible assets	($0.03)	$0.14
Weighted average common shares outstanding - diluted - used for calculation	25,745	26,177

(in thousands, except per share data)

	For the Nine Months Ended September 30,	
	2001	2000
Net loss	($39,481)	($48,779)
Adjustments:		
Amortization of acquisition-related intangible assets	30,640	54,454
Nonrecurring costs	8,549	
Tax-effected income (loss) excluding nonrecurring costs and amortization of acquisition-related intangible assets	($292)	$5,675
Tax-effected income (loss) per diluted share excluding nonrecurring costs and amortization of acquisition-related intangible assets	($0.01)	$0.22
Weighted average common shares outstanding - diluted - used for calculation	25,513	25,817

11. STOCK OPTION EXCHANGE PROGRAM

In July 2000, the Company completed a program offered in June 2000 whereby employees could elect to exchange certain "out-of-the-money" stock options for shares of restricted stock at specified conversion ratios. In July 2000, approximately 118,000 shares of restricted stock were issued in exchange for options to purchase approximately 432,000 shares of common stock at exercise prices ranging from $9.4375 to $45.25. Restrictions imposed on holders of the issued restricted stock as to transfers or sales lapse annually over a three-year period. Upon issuance of these shares, deferred compensation of $1.4 million was recorded as a component of stockholders' equity for the fair value of the restricted stock. As of September 30, 2001, the deferred compensation was $0.6 million and will be recognized as compensation expense ratably over the remaining restriction period of two years, assuming that restrictions on all shares lapse.

12. RECENT ACCOUNTING PRONOUNCEMENTS

In April 2001, the Financial Accounting Standards Board's Emerging Issues Task Force (EITF) reached a consensus on Issue No. 00-25, "Vendor Income Statement Characterization of Consideration to a Purchaser of the Vendor's Products or Services." This issue addresses the income statement classification of "slotting fees," cooperative advertising arrangements and "buydowns." The Company will adopt EITF 00-25 on January 1, 2002 and its adoption is not expected to have a material impact on the Company's financial position or results of operations.

In June 2001, the Financial Accounting Standards Board issued Statement of Accounting Standard No. 141 ("SFAS 141"), "Business Combinations," which supersedes APB Opinion No. 16 "Business Combinations." SFAS 141 addresses financial accounting and reporting for business combinations and requires that all business combinations be accounted for using the purchase method. SFAS 141 requires disclosures in addition to those required under APB Opinion No. 16, including disclosure of the primary reasons for the business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed. SFAS 141 applies to all business combinations initiated after June 30, 2001. The Company does not expect the application of SFAS 141 to have a material impact on the Company's financial position or results of operations.

In June 2001, the Financial Accounting Standards Board issued Statement of Accounting Standard No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets." SFAS 142 addresses how acquired goodwill and other intangible assets should be accounted for in financial statements. SFAS 142 requires separate accounting for goodwill and intangible assets that have indefinite useful lives versus finite useful lives. Goodwill and intangible assets that have indefinite useful lives will not be amortized, but instead will be tested annually for impairment. Intangible assets that have finite useful lives will be amortized ratably over the useful life, no longer subject to a 40-year ceiling. 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 will adopt SFAS 142 on January 1, 2002. The impact of SFAS 142 on the consolidated financial statements is still being evaluated.

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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 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, nonlinear 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. (Nonlinear systems allow editors to access material randomly rather than requiring them to work sequentially.) To complement these nonlinear 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 3-D and special effects software products developed by 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, as well as in home and hobbyist markets. 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 for success for many broadcast and media companies with multiple product lines. 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. We intend to increase our network-based services offerings and develop this area into an incremental revenue opportunity.

Move Media. We offer products that allow customers to share and distribute their final product. We believe that the Internet will become a significant new content distribution channel and we are continuing to invest in this area. We develop 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 now 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 Internet professionals and hobbyists. 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 became the sole owner of iNews by acquiring the 50% ownership interest that was held by The Grass Valley Group. Since the acquisition date, operating results of iNews have been included in the consolidated operating results of the Company. Prior to that date, the Company's 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. Net revenues decreased by $19.0 million (15.7%) to $102.3 million in the quarter ended September 30, 2001 from $121.3 million for the same quarter in 2000. Net revenues decreased by $20.1 million (5.6%) to $329.8 million for the nine months ended September 30, 2001 from $349.9 million for the nine months ended September 30, 2000. The revenue decrease in both periods reflected a decline in both our Video and Film Editing and Effects ("Video") business and our Professional Audio ("Audio") business. The Company believes that a portion of the overall decline is due to the general worldwide economic slowdown. Certain product families within these segments, in particular the Broadcast Products portion of the Video business, showed growth in the quarterly and year-to-date periods, but this growth was more than offset by declines in other product families. Also contributing to the decline for the three- and nine-month periods ended September 30, 2001 was an adverse currency effect of $2.3 million and $8.3 million, respectively, assuming exchange rates during these periods remained consistent with the three- and nine-month periods ended September 30, 2000.

During the third quarter, the Company began shipments of Avid Unity MediaNet version 2.0 and Avid NetReview version 1.0, as well as several point-releases of various other existing products. Earlier in the year, the Company began shipments of version 2.0 of NewsCutter XP and NewsCutter XP Mobile, a high definition (HD) version of the Company's DS product, and also began offering iNews products and services as a result of the acquisition in January 2001. The effect of the DS-HD and iNews products and services on the nine months ended September 30, 2001 as compared to the same period in 2000 was to increase revenues by approximately $23.6 million. The impact on revenue of the other product releases on a year-over year basis was not significant.

Net revenues derived through indirect channels were approximately 74% of net revenues for the three months ended September 30, 2001, compared to 85% of net revenues for the same period in 2000. Indirect channel revenues were approximately 80% of net revenues for the nine months ended September 30, 2001, compared to approximately 86% for the same period in 2000. The trend to direct selling during 2001 is due primarily to the growth in sales to our broadcast customers that generally require a longer selling cycle with more direct support.

International sales (sales outside of North America) decreased by 21.8% in the third quarter of 2001 compared to the same period in 2000 and represented approximately 46% and 50% of net revenues, respectively. International sales decreased by 13.0% in the nine-month period ended September 30, 2001 compared to the same period in 2000 and represented approximately 48% and 52% of net revenues, respectively. Despite these declines, the Company expects that international sales will continue to represent a significant portion of our total net revenues.

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 fluctuations.

Gross margin increased to 50.7% in the third quarter of 2001 compared to 50.3% in the same period of 2000 and increased to 51.3% for the nine months ended September 30, 2001 from 51.0% for the same period in 2000. The slight gross margin increase in the third quarter was primarily due to lower manufacturing costs and a more favorable product mix. This increase was partially offset by unabsorbed overhead as the result of lower than expected revenue and the negative impact from currency, assuming exchange rates for the quarter ended September 30, 2001 remained consistent with the quarter ended September 30, 2000. The slight increase for the nine-month period was primarily due to a more favorable product mix, lower manufacturing costs and lower discounting and promotions. This increase was partially offset by unabsorbed overhead as the result of lower than expected revenue and the negative impact from currency, assuming exchange rates for the nine-month period ended September 30, 2001 remained consistent with the nine-month period ended September 30, 2000.

Research and Development

Research and development expenses decreased by $1.3 million (6.0%) in the third quarter of 2001 compared to the same period in 2000 and increased by $3.6 million (5.9%) for the nine months ended September 30, 2001 compared to the same period in 2000. The decrease in the third quarter was primarily due to decreased variable employee compensation expense as well as increased funding from a third-party partner in conjunction with the development of a certain product. These decreases were partially offset by the increased personnel-related expense associated with acquiring the remaining 50% of iNews in January 2001. The increase in the nine-month period ended September 30, 2001 was primarily due to increased personnel-related expenses and facility costs, primarily associated with the acquisition of iNews in January 2001, partially offset by a reduction in variable compensation expense. Research and development expenses increased to 19.2% of net revenues in the third quarter of 2001 compared to 17.2% in the same quarter of 2000, primarily due to the decrease in revenue for the third quarter of 2001. Research and development expenses increased to 19.6% of net revenues for the nine months ended September 30, 2001 from 17.5% for the nine months ended September 30, 2000. This increase was primarily due to the increase in research and development expenses noted above and the decrease in revenue for the first three quarters of 2001.

Marketing and Selling

Marketing and selling expenses decreased by $2.4 million (7.9%) in the third quarter of 2001 compared to the same period in 2000 and decreased by $1.0 million (1.1%) for the nine months ended September 30, 2001 compared to the same period in 2000. The decrease in the third quarter was primarily due to decreases in variable employee compensation and recruiting expenses, various marketing programs and the provision for bad debt expense, partially offset by increased personnel-related expenses associated with the acquisition of iNews in January 2001. The decrease for the nine-month period ended September 30, 2001 was primarily due to reduced bad debt expense, variable compensation expense and trade show expenses, partially offset by increased personnel-related and travel expenses, primarily associated with the acquisition of iNews in January 2001. Marketing and selling expenses increased to 27.0% of net revenues in the third quarter of 2001 compared to 24.7% in the same quarter of 2000 due to the decrease in revenue for the third quarter of 2001. Marketing and selling expenses increased to 26.9% from 25.7% for the nine months ended September 30, 2001 and 2000, respectively, due to the decrease in revenue for the first three quarters of 2001.

General and Administrative

General and administrative expenses decreased by $0.8 million (12.7%) in the third quarter of 2001 compared to the same period in 2000 and decreased by $3.4 million (16.1%) for the nine months ended September 30, 2001 compared to the same period in 2000. The decrease in the third quarter was due to reduced recruiting and relocation expenses and variable compensation expenses, partially offset by increased personnel-related expenses, primarily associated with the acquisition of iNews in January 2001. For the year to date periods, the decrease was primarily due to executive severance costs and variable compensation expenses, partially offset by increased personnel-related expenses, primarily associated with the acquisition of iNews in January 2001. The executive severance costs were recorded as a charge in 2000 relating to the termination benefits of certain former officers of the Company. There was no severance charge in 2001. General and administrative expenses increased to 5.2% of net revenues in the third quarter of 2001 compared to 5.0% in the same quarter of 2000 due to the decrease in revenue for the third quarter of 2001. General and administrative expenses decreased to 5.4% from 6.0% of net revenues for the nine months ended September 30, 2001 and 2000, respectively. This decrease was primarily due to the decrease in expenses noted above.

Restructuring and Other Costs, Net

In December 1999, the Company entered into an agreement to sell its Italian subsidiary to a third party who established the entity as a distributor of Avid products. The Company incurred a loss of approximately $2.0 million related 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 associated with the reversal of the reserve, which was included under the caption Restructuring and other cost, net, where the charge was originally recorded. In addition, in the quarter ended June 30, 2001, the Company received a payment of $0.3 million under the note received as partial consideration from the buyers of the Italian subsidiary. This payment was recorded as a credit to Restructuring and other costs, net since the note was fully reserved when received. There was no activity related to the note in the third quarter of 2001. Any future payments to be received under the note will be similarly accounted for only when received.

On March 29, 2001, the Company announced a restructuring plan related to its Softimage operations. As a result, the Company terminated 47 employees, primarily in Montreal, Canada, and vacated a leased facility in California. In connection with this plan, the Company recorded a $1.4 million restructuring charge during the first quarter of 2001. The restructuring charge included approximately $1.2 million for severance and related costs of terminated employees and $0.2 million for facility vacancy costs, including a non-cancelable lease commitment. In June 2001, the Company implemented a restructuring plan related to its Avid Internet Solutions operations resulting in the termination of 7 employees and a restructuring charge of $0.2 million for severance and related costs.

In August 2001, the Company announced and implemented a restructuring plan to further decrease costs through the consolidation of operations and the reduction of approximately 140 jobs worldwide. In connection with this plan, the Company recorded a charge to operating expenses of $8.5 million in the third quarter. The restructuring charge included approximately $6.1 million for severance and related costs of terminated employees and $2.4 million for facility vacancy costs, of which $1.0 million represented non-cash charges relating to the disposition of leasehold improvements. This restructuring plan is expected to result in annual cost savings of approximately $11.0 million.

In addition, in the quarter ended September 30, 2001, the Company recorded a credit of $0.2 million to restructuring and other costs, net, associated with a reduction in its estimated liability for executive severance related to a charge initially recorded in 1999.

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. Results for the quarters ended September 30, 2001 and 2000 reflect amortization of $5.1 million and $14.9 million, respectively, associated with these acquisition-related intangible assets. Results for the nine-month periods ended September 30, 2001 and 2000 reflect amortization of $30.6 million and $54.5 million, respectively, associated with these acquisition-related intangible assets. The unamortized balance of the intangible assets relating to these acquisitions, including goodwill, was $4.0 million at September 30, 2001. Approximately $0.5 million of additional amortization is expected through December 2001, with the remaining $3.5 million expected to be amortized through December 2004.

Other Income (Expense), Net

Other income (expense), net, generally consists of equity in the income of non-consolidated companies, interest income, and interest expense. Other income (expense), net, for the third quarter 2001 decreased $0.2 million to $0.6 million as compared to the same period in 2000 due to an increase in interest expense, a decrease in interest income and the elimination of the Company's equity in the net income of iNews as a result of the acquisition of the remaining ownership interest in the first quarter of 2001, partially offset by a gain associated with the sale of equity securities. For the nine-month period ended September 30, 2001, other income (expense), net, increased $0.9 million to $4.0 million as compared to the same period in 2000 primarily due to the recording of an unrealized gain on stock received in 2001 in connection with the sale of Avid's share of Avid Sports LLC in June 2000 as well as a realized gain associated with the sale of additional equity securities. This income was partly offset during 2001 by a charge of $1.1 million to partially write-down an investment accounted for under the equity method, and a decrease in interest income.

Provision for Income Taxes

The Company recorded a tax provision of $0.7 million for the third quarter of 2001 after recording a tax provision of $0.8 million in each of the first two quarters of 2001. This compares to a tax provision of $1.25 million recorded in each of the same quarters last year. In general, these provisions were comprised of taxes payable by the Company's foreign subsidiaries. No tax benefit was recorded on the losses generated in other jurisdictions because utilization of net operating loss carryforwards is not assured.

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 September 30, 2001, the Company's principal sources of liquidity included cash, cash equivalents and marketable securities totaling approximately $76.4 million.

With respect to cash flows, net cash provided by operating activities was $7.6 million for the nine months ended September 30, 2001 compared to $4.0 million provided by operating activities in the same period in 2000. During the nine months ended September 30, 2001, net cash provided by operating activities primarily reflects the net loss adjusted for depreciation and amortization and decreases in accrued expenses and accounts payable, offset by a decrease in accounts receivable. During the nine months ended September 30, 2000, net cash provided by operating activities primarily reflects the net loss adjusted for depreciation and amortization and provisions for doubtful accounts, offset by increases in accounts receivable and inventories and decreases in accrued expenses, compensation and benefits.

The Company purchased $9.4 million of property and equipment during the nine months ended September 30, 2001, compared to $5.8 million in the same period in 2000. The purchases for the nine-month period ended September 30, 2001 primarily reflects $3.4 million of computers, furniture and fixtures purchased in connection with the move of the Digidesign facility to Daly City California, hardware and software to support research and development activities and the Company's information systems. The purchases for the nine-month period ended September 30, 2000 were primarily hardware and software to support research and development activities and the Company's information systems. During the nine months ended September 30, 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. Additionally, during the nine months ended September 30, 2000, the Company made a cash investment of $2.1 million in Rocket Networks, Inc.

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 have been made in the open market or in privately negotiated transactions. The Company has used, and plans to continue to use, any repurchased shares for reissuance under 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 the stock buyback program.

As a result of the various restructuring actions taken by the Company during 2001 and prior periods, as of September 30, 2001, the Company has commitments to pay severance and other termination benefits to employees of approximately $4.5 million over the next six months. Additionally, the Company has facility-related cash obligations as a result of losses to be incurred on subleases of space vacancies as part of the restructuring actions of approximately $2.9 million. These payments will be made over the remaining term of the leases, which expire in 2010, unless the Company is able to negotiate an earlier termination. All restructuring related payments will be funded through working capital.

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 12 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.

EUROPEAN MONETARY UNION

On January 1, 1999, eleven of the fifteen member countries of the European Union established fixed conversion rates between their sovereign currencies and the euro. As of that date, the participating countries agreed to adopt the euro as their common legal currency. However, the legacy currencies remain legal tender in the participating countries until January 1, 2002. During this transition period, public and private parties may elect to pay or charge for goods and services using either the euro or the participating country's legacy currency.

The Company began conducting certain business transactions in the euro on January 1, 1999, and changed its functional currency for the effected countries to the euro on January 1, 2000. The conversion to the euro has not had and is not expected to have a significant operational impact or a material financial impact on the results of operations, financial position, or liquidity of the Company's European businesses.

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2001, the Financial Accounting Standards Board's Emerging Issues Task Force (EITF) reached a consensus on Issue No. 00-25, "Vendor Income Statement Characterization of Consideration to a Purchaser of the Vendor's Products or Services." This issue addresses the income statement classification of "slotting fees," cooperative advertising arrangements and "buydowns." The Company will adopt EITF 00-25 on January 1, 2002 and its adoption is not expected to have a material impact on the Company's financial position or results of operations.

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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 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 be limited. Our future growth will depend upon our ability to introduce new features and functionality for Media Composer, improve upon its price/performance, respond to competitive offerings, and adapt to new industry requirements and standards. Any delay or failure to further develop Media Composer or to introduce other new products in this market, could harm our business and reduce our operating results.

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, launched in December 2000, and with the server, newsroom, and browser products obtained in the recent Pluto and iNews acquisitions. As a relatively new player in the broadcast market, we may encounter difficulties in establishing ourselves and developing a strong, loyal customer base. Our competitors, such as Associated Press, Sony, Leitch, Panasonic, and The Grass Valley Group, may devote greater resources to the broadcast market than we do, or may be able to leverage their market presence more effectively. If we are unsuccessful in capturing a share of the market, our business and revenues could be adversely affected.

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), it now faces new challenges to its products and services. Competitors' products, including Alias/Wavefront's Maya, Discreet's 3D Studio Max, and NewTek's Lightwave, have reduced Softimage's market share. In addition, new product offerings from all of the market players in recent years have contributed to downward price pressure, which has resulted in increasing compression of margins. To the extent that these factors continue or worsen, our business could suffer.

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, and other difficulties that delay or prevent our development, introduction or marketing of new products or enhancements.

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.

Our future growth depends in part on the widespread adoption of the Internet by the digital media market.

Our plans for future growth in the Internet market, including the Avid Production Network and Trilligent product lines, as well as the Internet news market, depend on increased use of the Internet for the creation, use, manipulation, and distribution of media content from corporate markets to high-end post-production. Such uses of the Internet are currently at an early stage of development, and the future evolution of the Internet market is not clear. Our success in this emerging Internet market will depend on the rate at which the market develops and on our ability to establish our market presence. If the commercial use of the Internet fails to grow as anticipated or if we are unable to capture a significant market share, our business and results of operations could suffer.

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 both Windows and MacIntosh platforms, as well as other 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, Windows NT and MacIntosh. 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 and thereby reduce our profit margins.

Our operating results are dependent on several unpredictable factors.

Our gross profit margin on our products depends 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 gross profit margin.

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. 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 and 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.

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 gross profit margin.

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 lost 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 AvidProNet.com and DigiProNet.com websites could subject us to legal claims that could harm our business.

We have launched the Avid Production Network site (AvidProNet.com) to provide interactive information and services to new media and post-production professionals. Our plans for AvidProNet.com include content-hosting, remote reviewing, and stock footage availability. We have also launched the Digidesign Production Network site (DigiProNet.com) to provide services to audio professionals, including the sale of sound effects and audio samples, music licensing for film and other applications, online bulletin boards and classifieds, and online musical collaboration through virtual studios. DigiProNet.com will also offer services similar to those provided by AvidProNet.com, including remote reviewing.

Because materials may be posted on and/or downloaded from the AvidProNet.com and DigiProNet.com 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 either the AvidProNet.com website or DigiProNet.com website 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 to protect our proprietary technology. Despite our efforts to protect our proprietary technology, from time to time persons unauthorized have obtained, copied, and used information that we consider proprietary. Policing the unauthorized use of our proprietary technology is costly and time-consuming and may be inadequate to protect us fully.

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 6, "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 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; and
- changes in our relationships with suppliers, distributors, resellers, system integrators, or customers.

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 the 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 September 30, 2001, the Company had $39.7 million of forward-exchange contracts outstanding, denominated in various European and Asian currencies and the Canadian and Australian dollars, as a hedge against forecasted foreign currency-denominated receivables, payables and cash balances. Net losses of $129,000 resulting from forward-exchange contracts were included in the results of operations in the third quarter of 2001, which offset net gains on the related assets and liabilities of $29,000. For the nine-month period ended September 30, 2001, net gains of $1.1 million resulting from forward-exchange contracts were recorded, which partially offset net losses of $2.3 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 offset the impact on the asset and liability positions of the Company's foreign subsidiaries.

Interest Rate Risk

At September 30, 2001, the Company held $51.6 million in 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 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.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS.

None

(b) REPORTS ON FORM 8-K. For the fiscal quarter ended September 30, 2001, 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: November 13, 2001 By: /s/ Paul J. Milbury

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

Date: November 13, 2001 By: /s/ Carol L. Reid

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

EXHIBIT INDEX

Exhibit No.	Description