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

August 13, 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 June 30, 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

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 JUNE 30, 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 August 8, 2002 was 26,348,293.

AVID TECHNOLOGY, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2002

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ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net revenues	$106,094	$109,434	$198,103	$227,567
Cost of revenues	52,591	53,516	100,306	110,029
Gross profit	53,503	55,918	97,797	117,538
Operating expenses:				
Research and development	20,411	21,882	40,229	45,155
Marketing and selling	26,775	31,520	49,741	61,266
General and administrative	5,018	5,432	9,531	12,399
Restructuring and other costs, net	(327)	(118)	(327)	246
Amortization of acquisition-related intangible assets	257	13,132	603	25,552
Total operating expenses	52,134	71,848	99,777	144,618
Operating income (loss)	1,369	(15,930)	(1,980)	(27,080)
Other income (expense), net	(717)	1,895	(452)	3,391
Income (loss) before income taxes	652	(14,035)	(2,432)	(23,689)
Provision for income taxes	500	800	1,100	1,600
Net income (loss)	$152	($14,835)	($3,532)	($25,289)
Net income (loss) per share - basic	$0.01	($0.58)	($0.14)	($1.00)
Net income (loss) per share - diluted	$0.01	($0.58)	($0.14)	($1.00)
Weighted average shares outstanding - basic	26,161	25,440	26,095	25,395
Weighted average shares outstanding - diluted	26,511	25,440	26,095	25,395

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

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

	June 30, 2002 (unaudited)	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$42,408	$45,613
Marketable securities	22,700	27,348
Accounts receivable, net of allowances of $11,787 and $11,497 at June 30, 2002 and December 31, 2001, respectively	77,619	78,010
Inventories	25,249	21,690
Deferred tax assets, net	727	695
Prepaid expenses	6,979	6,722
Other current assets	3,707	3,440
Total current assets	179,389	183,518
Property and equipment, net	25,815	27,164
Acquisition-related intangible assets, net	1,778	3,462
Goodwill	1,087	-
Other assets	676	1,662
Total assets	$208,745	$215,806
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$28,498	$19,076
Accrued compensation and benefits	12,676	13,023
Accrued expenses and other current liabilities	22,576	26,125
Income taxes payable	9,959	10,932
Deferred revenues	29,939	28,872
Total current liabilities	103,648	98,028
Long-term debt	-	13,020
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock		
Common stock	266	266
Additional paid-in capital	355,890	357,446
Accumulated deficit	(239,733)	(235,926)
Treasury stock	(5,159)	(8,035)
Deferred compensation	(523)	(1,294)
Accumulated other comprehensive loss	(5,644)	(7,699)
Total stockholders' equity	105,097	104,758
Total liabilities and stockholders' equity	$208,745	$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)

	Six Months Ended June 30,	
	2002	2001
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	($3,532)	($25,289)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,701	33,194
Provision for doubtful accounts	902	811
Compensation from stock grants and options	751	1,571
Equity in income of non-consolidated companies	(133)	(1,164)
Gain on sale of businesses	(327)	(2,366)
Gain on sale of marketable securities		(359)
Write-down of investment in non-consolidated company	1,000	1,100
Changes in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	693	15,577
Inventories	(3,384)	(5,415)
Prepaid expenses and other current assets	(98)	(318)
Accounts payable	9,283	(9,654)
Income taxes payable	(1,096)	(1,067)
Accrued expenses, compensation and benefits and other current liabilities	(3,441)	(13,630)
Deferred revenues	885	94
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	8,204	(6,915)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(5,711)	(4,719)
Payments for other long-term assets	(132)	(280)
Dividends from non-consolidated company	59	94
Payments for business acquisition, net of cash acquired		(5,439)
Payment on note issued in connection with acquisition	(13,020)	
Collections of notes receivable from sale of business	327	333
Purchases of marketable securities	(15,516)	(8,632)
Proceeds from sales of marketable securities	20,866	15,991
NET CASH USED IN INVESTING ACTIVITIES	(13,127)	(2,652)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of common stock for treasury		(4,155)
Proceeds from issuance of common stock	1,062	3,876
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,062	(279)
Effects of exchange rate changes on cash and cash equivalents	656	(1,220)
Net decrease in cash and cash equivalents	(3,205)	(11,066)
Cash and cash equivalents at beginning of period	45,613	64,875
Cash and cash equivalents at end of period	$42,408	$53,809

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 INCOME (LOSS) PER SHARE

Basic and diluted net income (loss) per share were as follows (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net income (loss)	$152	($14,835)	($3,532)	($25,289)
Weighted average common shares outstanding - basic	26,161	25,440	26,095	25,395
Weighted average potential common stock	350	-	-	-
Weighted average common shares outstanding - diluted	26,511	25,440	26,095	25,395
Basic net income (loss) per share	$0.01	($0.58)	($0.14)	($1.00)
Diluted net income (loss) per share	$0.01	($0.58)	($0.14)	($1.00)
Common stock options and warrants that were considered anti-dilutive securities and excluded from the diluted net income (loss) per share calculations were as follows, on a weighted-average basis:	8,823	9,307	8,952	8,964

For the three and six months ended June 30, 2002 and 2001, certain stock options and warrants have been excluded from the diluted net income (loss) per share calculation as their effect would be anti-dilutive. For periods that the Company reports a net loss, all potential common stock is considered anti-dilutive; for periods when the Company reports net income, only potential common shares with purchase prices in excess of the Company's average common stock fair value for the related period are considered anti-dilutive.

3. INVENTORIES

Inventories consisted of the following (in thousands):

	June 30, 2002	December 31, 2001
Raw materials	$13,527	$13,043
Work in process	2,612	2,553
Finished goods	9,110	6,094
	$25,249	$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 technologies 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). Beginning in September 2000, AvStar has been doing business as iNews, LLC ("iNews").

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 six-month period ended June 30, 2001 was approximately $1.1 million. 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 was initially 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 of these intangible assets of $0.2 million and $0.4 million in the three- and six-month periods ended June 30, 2002 and $0.7 million for each of the three- and six-month periods ended June 30, 2001. In connection with the adoption of SFAS 142 discussed below, the Company reclassified $1.1 million of the remaining acquired work force to goodwill on January 1, 2002 (see Note 5).

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, which supersedes APB Opinion No. 17 "Intangible Assets", 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. SFAS No. 142 requires that goodwill not be amortized but rather be tested for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events. 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.

In connection with its adoption of SFAS 142 on January 1, 2002, the Company reclassified the remaining value of acquired work force from the iNews acquisition of $1.1 million to goodwill and, as a result, ceased amortizing this amount; prior to this reclassification, the Company had no unamortized goodwill as of that date.

SFAS 142 requires the Company to test all existing goodwill for impairment as of January 1, 2002, on a reporting unit basis. SFAS 142 prescribes a two-phase process of impairment testing of goodwill. The first phase, which under SFAS 142's transitional guidance was required to be completed by June 30, 2002, tests for impairment by comparing the fair value of each reporting unit with its book value. The second phase, which under SFAS 142's transitional guidance is required to be completed by December 31, 2002, is not necessary if the fair value of each reporting unit exceeds its book value, as tested in the first phase. If the second phase is necessary the impairment of goodwill is measured by comparing the fair value of each reporting unit's goodwill with the related carrying amount of the goodwill. As defined by SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", a reporting unit is the same level as or one level below an operating segment. The Company has determined that its reporting units are its operating segments, Video and Film Editing and Effects and Professional Audio. The Company completed the first phase of the impairment analysis during the second quarter of 2002 and found no instances of impairment of its recorded goodwill as of January 1, 2002; accordingly, absent future indicators of impairment, no further testing phases are expected during 2002. Additional impairment analyses will be completed at least annually, or more frequently when events and circumstances indicate that the recorded goodwill might be impaired.

Finite-lived intangible assets at June 30, 2002 and December 31, 2001 consisted only of completed technologies with a gross carrying amount of $3.9 million and $6.5 million, respectively. The related accumulated amortization was $2.1 million and $3.1 million at June 30, 2002 and December 31, 2001, respectively. Completed technologies are amortized on a straight-line basis over periods ranging from 3 to 4.5 years. The Company expects amortization to be approximately $0.5 million for the remainder of 2002, $1.0 million during 2003, and $0.2 million during 2004.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2002	2001	2002	2001
Reported net income (loss)	$152	($14,835)	($3,532)	($25,289)
Goodwill amortization		9,912		19,824
Amortization of work force		1,046		1,801
Pro forma net income (loss)	$152	($3,877)	($3,532)	($3,664)
Basic net income (loss) per share:				
As reported	$0.01	($0.58)	($0.14)	($1.00)
Pro forma	$0.01	($0.15)	($0.14)	($0.14)
Weighted average common shares outstanding - basic	26,161	25,440	26,095	25,395
Diluted net income (loss) per share:				
As reported	$0.01	($0.58)	($0.14)	($1.00)
Pro forma	$0.01	($0.15)	($0.14)	($0.14)
Weighted average common shares outstanding - diluted	26,511	25,440	26,095	25,395

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. Through December 31, 2001, the Note had been increased by approximately $16.0 million for forfeited Avid stock options. 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 three-month period ended June 30, 2001 of $0.3 million. The Company made cash payments for interest during the six-month periods ended June 30, 2002 and 2001 of $20,000 and $0.6 million, respectively.

7. 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 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. On January 16, 1998, the litigation was 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 INCOME (LOSS)

Total comprehensive income (loss), net of taxes, consists of net income (loss), the net changes in foreign currency translation adjustment and the net unrealized gains and losses on available-for-sale securities. The following is a summary of the Company's comprehensive income (loss), net of taxes (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net income (loss)	$152	($14,835)	($3,532)	($25,289)
Foreign currency translation adjustment	2,505	(184)	2,040	(2,388)
Unrealized gains (losses) on securities	13	(805)	15	(545)
Total comprehensive income (loss)	$2,670	($15,824)	($1,477)	($28,222)

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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Video and Film Editing and Effects:				
Net revenues	$70,227	$79,907	$129,976	$167,239
Operating loss	($3,459)	($5,957)	($9,697)	($8,015)
Professional Audio:				
Net revenues	$35,867	$29,527	$68,127	$60,328
Operating income	$4,758	$3,041	$7,993	$6,733
Combined Segments:				
Net revenues	$106,094	$109,434	$198,103	$227,567
Operating income (loss)	$1,299	($2,916)	($1,704)	($1,282)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Total operating income (loss) for reportable segments	$1,299	($2,916)	($1,704)	($1,282)
Unallocated amounts:				
Amortization of acquisition-related intangible assets	(257)	(13,132)	(603)	(25,552)
Restructuring and other costs, net	327	118	327	(246)
Consolidated operating income (loss)	$1,369	($15,930)	($1,980)	($27,080)

10. RESTRUCTURING AND OTHER COSTS, NET

During the six months ended June 30, 2001, the Company implemented restructuring plans resulting in the termination of 54 employees, primarily related to its Softimage operations in Montreal, Canada, and the vacating of a leased facility in California. The Company incurred charges of approximately $1.5 million under these plans, which included $1.3 million for severance and related costs of the 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 six months ended June 30, 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	(796)	(515)	(1,311)
Accrual balance at June 30, 2002	$675	$2,074	$2,749

The Company expects that the majority of the remaining $0.7 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 various restructuring actions. The leases 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. In 1999, the Company incurred and recorded a loss of approximately $2.0 million relating to the sale, including a reserves of $1.0 million for the Company's guarantee of the new entity's line of credit with a bank and $0.8 million for loans extended to the buyers in connection with the transaction. The line of credit 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. In addition, in the quarter ended June 30, 2002, the Company received a payment of $0.3 million under the note received as partial consideration from the buyers of the Italian subsidiary. The Company also received a payment of $0.3 million under the note in the quarter ended June 30, 2001. These payments were recorded as credits to restructuring and other costs, net, since the note was fully reserved when received. The payment received in the quarter ended June 30, 2002 satisfied the remaining balance of the note in full.

11. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146) which nullifies EITF Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, whereas EITF No 94-3 had allowed the liability to be recorded at the commitment date of an exit plan. The Company is required to adopt the provisions of SFAS 146 effective for exit or disposal activities initiated after December 31, 2002, and is currently evaluating the impact of adoption of this statement.

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. For example, we provide technology for playback directly to air for broadcast television applications. In addition, we believe that the Internet will eventually become a critical content distribution channel, and we therefore develop and sell Internet ready products.

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

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 by $29.5 million (12.9%) to $198.1 million for the six months ended June 30, 2002 from $227.6 million for the six months ended June 30, 2001. This decrease occurred across most product families in our Video and Film Editing and Effects ("Video") business, in particular the Media Composer family. We believe that a portion of this decline was due to the general worldwide economic slowdown. More specifically, we believe that a reduction 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 in the Video segment was also adversely impacted by pricing reductions and discounts. Our Professional Audio ("Audio") business contributed favorably to revenues due to strong demand for its new flagship digital audio workstation, Pro Tools|HD, which was introduced in January 2002. Revenue from the combined segments includes an adverse currency effect of approximately $2.0 million in 2002 versus the same period a year ago, primarily due to a weakening of the yen, and to a lesser extent the weakening of the euro (assuming prior quarter revenues were expressed at current quarter exchange rates).

Net revenues decreased by $3.3 million (3.1%) to $106.1 million for the quarter ended June 30, 2002 from $109.4 million for the same quarter in 2001. This decrease occurred primarily in the Media Composer family of the Video business for the reasons noted above. These decreases were in part offset by continued strong demand for Pro Tools|HD in our Audio segment. The decrease quarter-on-quarter was substantially less than that of the six-month periods due to higher revenues in the quarter ended June 30, 2002, which were up from the quarter ended March 31, 2002 by $14.1 million or 15.3%. This improvement over the first quarter of 2002 occurred in both the Video and Audio segments, driven by the release of several new Video products at the end of the quarter ended June 30, 2002 and by delivery of third-party software from the Audio business for which revenue had previously been deferred.

During the second quarter of 2002, the Company began shipping Digital Studio v6.0, Digital Studio HD v6.0, Symphony v4.0, Media Composer v11.0, Xpress v5.0, NewsCutter Effects v3.0, Newscutter XP v3.0 and NewsCutter Mobile v3.0.

Net revenues derived through indirect channels were approximately 82% of net revenues for the three months ended June 30, 2002, compared to 81% of net revenues for the same period in 2001. Indirect channel revenues were approximately 82% of net revenues for both the six-month periods ended June 30, 2002 and 2001.

Sales in the Americas accounted for 55% and 57% of the Company's second quarter 2002 and 2001 net revenues, respectively. For the six-month periods ended June 30, 2002 and 2001, sales in the Americas accounted for 55% and 54% of net revenues, respectively. For the three- and six-month periods ended June 30, 2002, Americas sales decreased by approximately $3.3 million or 5.3% and $12.9 million or 10.5%, respectively, compared to the same periods in 2001.

Sales in the Europe and Asia Pacific regions accounted for 45% and 43% of the Company's second quarter 2002 and 2001 net revenues, respectively. For the six-month periods ended June 30, 2002 and 2001, sales in the Europe and Asia pacific regions accounted for 45% and 46% of net revenues, respectively. The combined Europe and Asia Pacific sales in the second quarter of 2002 were relatively unchanged compared to the same period in 2001 and decreased by approximately $16.6 million or 15.8% for the first half of 2002 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 peripher hardware products such as disk drives, and currency exchange rate fluctuations.

Gross margin decreased to 49.4% for the six months ended June 30, 2002 from 51.6% for the same period in 2001. This decrease was primarily due to price reductions and discounting in the Video segment, and higher manufacturing costs in the Audio segment, both of which were partially offset by a more favorable product mix in the Video business driven by the release of several new products at the end of the quarter and by delivery of third-party promotional software from Audio for which revenue had previously been deferred. Additionally, there was a negative impact from currency exchange rate fluctuations, primarily a weakening of the Japanese yen, and to a lesser extent the weakening of the euro for the six-month period ended June 30, 2002.

Gross margin decreased to 50.4% in the second quarter of 2002 compared to 51.1% in the same period of 2001. This decrease was primarily due to price reductions, discounting and higher manufacturing costs per unit in the Video segment and higher manufacturing costs in the Audio segment, both of which were partially offset by the more favorable product mix from the Video business and by delivery of third-party promotional software from Audio for which revenue had previously been deferred.

Research and Development

Research and development expenses decreased by $1.5 million (6.7%) in the second quarter of 2002 compared to the same period in 2001 and decreased by $4.9 million (10.9%) for the six months ended June 30, 2002 compared to the same period in 2001. The decrease in each period was primarily the result of reduced personnel and other restructuring actions implemented in late 2001, partially offset by an increase in research and development costs related to our hardware architecture projects. Research and development expenses decreased to 19.2% of net revenues in the second quarter of 2002 compared to 20.0% in the same quarter of 2001. Due to a lower revenue base in 2002, research and development expenses increased to 20.3% of net revenues for the six months ended June 30, 2002 from 19.8% for the same period in 2001 despite lower research and development spending.

Marketing and Selling

Marketing and selling expenses decreased by approximately $4.7 million (15.1%) in the second quarter of 2002 compared to the same period in 2001 and decreased by $11.5 million (18.8%) for the six months ended June 30, 2002 compared to the same period in 2001 primarily due to restructuring actions implemented in the third quarter of 2001. The most significant spending reductions realized during 2002 were in personnel and related costs, marketing programs and travel and related expenses. Marketing and selling expenses decreased to 25.2% of net revenues in the second quarter of 2002 compared to 28.8% in the same quarter of 2001. Marketing and selling expenses decreased to 25.1% of net revenues for the six months ended June 30, 2002 from 26.9% for the same period in 2001.

General and Administrative

General and administrative expenses decreased by $0.4 million (7.6%) in the second quarter of 2002 compared to the same period in 2001 and decreased by $2.9 million (23.1%) for the six months ended June 30, 2002 compared to the same period in 2001. These decreases were primarily due to a reduction in outside legal fees and personnel and related expenditures. General and administrative expenses decreased to 4.7% of net revenues in the second quarter of 2002 compared to 5.0% in the same quarter of 2001 and decreased to 4.8% from 5.4% of net revenues for the six months ended June 30, 2002 and 2001, respectively.

Restructuring and Other Costs, Net

During the six months ended June 30, 2001, the Company implemented restructuring plans resulting in the termination of 54 employees, primarily related to its Softimage operations in Montreal, Canada, and the vacating of a leased facility in California. The Company incurred charges of approximately $1.5 million under these plans, which included $1.3 million for severance and related costs of the 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. In 1999, 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 and $0.8 million for loans extended to the buyers in connection with the transaction. The line of credit 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. In addition, in the quarter ended June 30, 2002, the Company received a payment of $0.3 million under the note received as partial consideration from the buyers of the Italian subsidiary. The Company also received a payment of $0.3 million under the note in the quarter ended June 30, 2001. These payments were recorded as credits to Restructuring and other costs, net, since the note was fully reserved when received. The payment received in the quarter ended June 30, 2002 satisfied the remaining balance of the note in full.

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 June 30, 2002 and 2001 reflect amortization of $0.3 million and $13.1 million, respectively, associated with these acquisition-related intangible assets. Results for the six-month periods ended June 30, 2002 and 2001 reflect amortization of $0.6 million and $25.6 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 this amount. During 2002 the Company recorded no goodwill or acquired workforce amortization as compared to approximately $11.0 million and $21.6 million in the three- and six-month periods ended June 30, 2001, respectively.

Other Income (Expense), Net

Other income (expense), net, generally consists primarily of income associated with various non-consolidated companies, interest income, and interest expense. Other income (expense), net, for the second quarter 2002 was ($.7 million) compared to $1.9 million for the same quarter last year, a decrease of $2.6 million. The decrease was due primarily to an unrealized gain recorded in the prior-year quarter on receipt of stock in connection with the sale of the Company's share of Avid Sports LLC in June 2000. For the six-month period ended June 30, 2002, other income (expense), net, decreased $3.8 million to ($0.5) million as compared to the same period in 2001, primarily due to the gain in 2001 on the sale of Avid Sports LLC noted above, along with the absence of any equity in the net income of iNews in the 2002 period as a result of the Company's acquisition of the remaining ownership interest in the first quarter of 2001. The Company recorded charges of $1.0 million and $1.1 million in the three months ended June 30, 2002 and 2001, respectively, to write off an impaired investment accounted for under the cost method. The investment impairment considered evidence of recent financing transactions and reviews of operating plans of the underlying entity.

Provision for Income Taxes

The Company recorded a tax provision of $0.6 million and $0.5 million for the first and second quarters of 2002, respectively. This compares to a tax provision of $0.8 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 before income taxes realized 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 June 30, 2002, the Company's principal sources of liquidity included cash, cash equivalents and marketable securities totaling approximately $65.1 million.

Net cash provided by operating activities was $8.2 million for the six months ended June 30, 2002 compared to $6.9 million used in operating activities in the same period in 2001. During the six months ended June 30, 2002, net cash provided by operating activities primarily reflects the net loss adjusted for depreciation and amortization and other non-cash adjustments as well as an increase in accounts payable, offset by an increase in inventories and a decrease in accrued expenses. During the six months ended June 30, 2001, net cash used in operating activities primarily reflects the net loss adjusted for depreciation and amortization and other non-cash adjustments as well as an increase in inventories and decreases in accrued expenses and accounts payable, offset by a decrease in accounts receivable.

The Company purchased $5.7 million of property and equipment during the six months ended June 30, 2002, compared to $4.7 million in the same period in 2001. In both of these periods, the purchases were primarily of hardware and software to support research and development. During the six months ended June 30, 2002, the Company also made a cash payment of approximately $13.0 million in full satisfaction of the Company's outstanding note to Microsoft. During the six months ended June 30, 2001, the Company made a cash payment, net of cash acquired, of $5.4 million for the purchase of the remaining 50% of iNews.

During the six months ended June 30, 2002 and 2001, the Company received cash proceeds of approximately $1.1 million and $3.9 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 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.

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.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146) which nullifies EITF Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Acitvity (including Certain Costs Incurred in a Restructuring)". SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, whereas EITF No 94-3 had allowed the liability to be recorded at the commitment date of an exit plan. The Company is required to adopt the provisions of SFAS 146 effective for exit or disposal activities initiated after December 31, 2002 and is currently evaluating the impact of adoption of this statement.

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 to offer broadcast solutions. 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, creating compelling customer solutions, 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 offering solutions to new markets, 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 offer digital media production solutions to 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 solutions successfully. To be successful, we will need to introduce new products, gain customer acceptance, and establish appropriate distribution channels, support, and maintenance. 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, allowing them to reduce 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.

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:

o changes in our quarterly operating results;
o 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 June 30, 2002, the Company had $24.8 million of forward-exchange contracts outstanding, denominated in euros, Japanese yen, Canadian dollars and Australian dollars, as a hedge against forecasted foreign currency-denominated receivables, payables and cash balances. For the three- and six-month periods ended June 30, 2002, net losses of $3.2 million and $3.0 million, respectively resulting from forward-exchange contracts were included in the results of operations and were more than offset by net transaction and translation gains on the related asset and liabilities for the same periods of $4.1 million and $3.8 million, respectively. 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 June 30, 2002, the Company held $65.1 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its Annual Meeting of Stockholders on May 22, 2002. At the meeting, Robert M. Halperin and William J. Warner were reelected as Class III Directors. The vote with respect to each nominee is set forth below:

	Total Vote For Each Director	Total Vote Withheld From Each Director
Mr. Halperin	19,820,655	3,425,259
Mr. Warner	22,949,010	297,004

Additional Directors of the Company whose term of office continued after the meeting are Charles T. Brumback, Nancy Hawthorne, Pamela F. Lenehan, and David A. Krall.

In addition, the stockholders ratified the selection of PricewaterhouseCoopers LLP as the Company's independent accountants by a vote of 22,983,076 shares for, 249,406 shares against, and 13,532 shares abstaining.

ITEM 5. OTHER INFORMATION

Any proposal that a stockholder wishes the Company to consider for inclusion in the Company's proxy statement and form of proxy card for the Company's 2003 Annual Meeting of Stockholders (the "2003 Meeting") must be submitted to the Secretary of the Company at its offices, Avid Technology Park, One Park West, Tewksbury, Massachusetts 01876, no later than December 13, 2002.

In addition, the Company's By-laws require all stockholder proposals to be timely submitted in advance to the Company at the above address (other than proposals submitted for inclusion in the Company's proxy statement and form of proxy card as described above). To be timely, the notice must be received by the Company no later than February 11, 2003 or 60 days before the date of the 2003 Meeting, whichever is later. The Company has not yet set a date for the 2003 Meeting. However, if the 2003 Meeting is held on May 22, 2003 (the anniversary of the 2002 Annual Meeting of Stockholders), the deadline for delivery of the notice would be March 24, 2003.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS
The exhibits listed in the accompanying index to exhibits are filed as part of this Quarterly Report on Form 10-Q.

(b) REPORTS ON FORM 8-K. For the fiscal quarter ended June 30, 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: August 13, 2002 By: /s/ Paul J. Milbury

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

Date: August 13, 2002 By: /s/ Carol L. Reid

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

EXHIBIT INDEX

Exhibit No.	Description	Page
99.1	Statement Pursuant to 18 U.S.C.ss.1350, dated as of August 13, 2002	

Exhibit 99.1

STATEMENT PURSUANT TO 18 U.S.C. ss.1350

Pursuant to 18 U.S.C. ss.1350, each of the undersigned certifies, in his capacity as an officer of Avid Technology, Inc. (the "Company"), that to the best of his knowledge and belief, this Quarterly Report on Form 10-Q for the period ended June 30, 2002 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in this report fairly presents, in all material respects, the financial condition and results of operations of the Company for such period.

Date: August 13, 2002 By: /s/ David A. Krall
David A. Krall
Chief Executive Officer

Date: August 13, 2002 By: /s/ Paul J. Milbury
Paul J. Milbury
Chief Financial Officer