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

November 5, 1999

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, 1999.

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

Very truly yours,

/s/ Ethan E. Jacks

Ethan E. Jacks
General Counsel

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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, 1999

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 3, 1999 was 23,829,798.

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AVID TECHNOLOGY, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1999

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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 September 30,		Nine Months Ended September 30,	
	1999 (unaudited)	1998 (unaudited)	1999 (unaudited)	1998 (unaudited)
Net revenues	$113,279	$116,185	$340,915	$337,779
Cost of revenues	55,310	45,929	150,006	135,993
Gross profit	57,969	70,256	190,909	201,786
Operating expenses:				
Research and development	20,623	22,757	67,516	63,685
Marketing and selling	33,564	30,967	99,651	89,245
General and administrative	6,598	6,902	20,609	19,931
Nonrecurring costs		28,373		28,373
Amortization of acquisition-related intangible assets	19,789	13,701	60,087	13,701
Total operating expenses	80,574	102,700	247,863	214,935
Operating loss	(22,605)	(32,444)	(56,954)	(13,149)
Interest and other income, net	739	2,016	2,602	7,265
Loss before income taxes	(21,866)	(30,428)	(54,352)	(5,884)
Benefit from income taxes	(8,746)	(8,855)	(21,741)	(1,247)
Net loss	($13,120)	($21,573)	($32,611)	($4,637)
Net loss per common share - basic and diluted	($0.56)	($0.89)	($1.36)	($0.20)
Weighted average common shares outstanding - basic and diluted	23,614	24,190	23,981	23,396

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

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

	September 30, 1999	December 31, 1998
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$57,578	$62,904
Marketable securities	25,498	48,922
Accounts receivable, net of allowances of $7,267 and $7,171 at September 30, 1999 and December 31, 1998, respectively	75,496	89,754
Inventories	13,899	11,093
Deferred tax assets	19,376	17,771
Prepaid expenses	6,377	6,095
Other current assets	5,661	5,108
Total current assets	203,885	241,647
Property and equipment, net	36,665	35,398
Long-term deferred tax assets	56,172	23,891
Acquisition-related intangible assets	114,861	181,631
Other assets	7,620	4,148
Total assets	$419,203	$486,715
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$27,765	$24,311
Current portion of long-term debt	157	398
Accrued compensation and benefits	14,552	29,031
Accrued expenses	32,568	32,708
Income taxes payable	13,919	13,715
Deferred revenues	20,759	22,519
Total current liabilities	109,720	122,682
Long-term debt, less current portion	11,616	13,261
Purchase consideration	25,647	60,461
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock		
Common stock	265	265
Additional paid-in capital	366,646	349,289
Retained earnings (accumulated deficit)	(22,972)	14,338
Treasury stock	(67,710)	(68,024)
Deferred compensation	(2,387)	(3,773)
Accumulated other comprehensive loss	(1,622)	(1,784)
Total stockholders' equity	272,220	290,311
Total liabilities and stockholders' equity	$419,203	$486,715

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,	
	1999 (unaudited)	1998 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	($32,611)	($4,637)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	75,096	50,091
Compensation from stock grants and options	1,063	3,531
Provision for doubtful accounts	2,293	1,407
Changes in deferred tax assets	(22,120)	224
(Gain) loss on disposal of equipment	56	(605)
Changes in operating assets and liabilities:		
Accounts receivable	9,332	13,174
Inventories	(1,709)	(1,921)
Prepaid expenses and other current assets	(937)	(3,493)
Accounts payable	3,533	(5,837)
Income taxes payable	(1,467)	1,619
Accrued expenses, compensation and benefits	(17,101)	(5,945)
Deferred revenues	(20)	(6,491)
NET CASH PROVIDED BY OPERATING ACTIVITIES	15,408	41,117
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment and other assets	(19,190)	(12,482)
Acquisition of business, net of cash acquired (Notes 3 and 4)		(78,416)
Proceeds from disposal of equipment	1,324	1,306
Purchases of marketable securities	(33,989)	(128,759)
Proceeds from sales of marketable securities	57,367	169,774
Investment in joint venture	(1,500)	
Payments on note issued in connection with acquisition	(8,000)	
NET CASH USED IN INVESTING ACTIVITIES	(3,988)	(48,577)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of long-term debt	(656)	(521)
Purchase of common stock for treasury	(19,742)	(51,144)
Proceeds from issuance of common stock	4,463	10,859
NET CASH USED IN FINANCING ACTIVITIES:	(15,935)	(40,806)
Effects of exchange rate changes on cash and cash equivalents	(811)	601
Net decrease in cash and cash equivalents	(5,326)	(47,665)
Cash and cash equivalents at beginning of period	62,904	108,308
Cash and cash equivalents at end of period	$57,578	$60,643

Non-cash Financing and Investing Activities:		
Property and equipment and inventory transferred to joint venture	$500	-

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, 1998 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 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, 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 7,380,493 and 6,987,178 weighted shares of common stock outstanding for the three- and nine-month periods ended September 30, 1999, respectively. Diluted net loss per share excluded options and warrants to purchase 3,013,826 and 2,188,964 weighted shares of common stock outstanding for the three- and nine-month periods ended September 30, 1998, respectively. Inclusion of these options and warrants would be anti-dilutive for each of these periods.

3. ACQUISITION OF SOFTIMAGE INC.

On August 3, 1998, the Company acquired from Microsoft Corporation ("Microsoft") the common stock of Softimage Inc. ("Softimage") and certain assets relating to the business of Softimage. In connection with the acquisition, Avid paid $79.0 million in cash to Microsoft and issued to Microsoft (i) a subordinated note (the "Note") in the amount of $5 million, due June 2003, (ii) 2,394,813 shares of common stock, valued at $64.0 million, and (iii) a ten-year warrant to purchase 1,155,235 shares of common stock at an exercise price of $47.65 per share, valued at $26.2 million. In addition, Avid agreed to issue to Softimage employees 40,706 shares of common stock, valued at $1.5 million, as well as stock options with a nominal exercise price to purchase up to 1,820,817 shares of common stock, valued at $68.2 million ("Avid Options"). Avid also incurred fees of $4.0 million in connection with the transaction. Per terms of the agreements, shares of common stock issued to Microsoft and shares underlying the warrant may not be traded until August 3, 2001. Additionally, the principal amount of the Note will be increased by $39.71 for each share underlying forfeited Avid Options. The value of the Avid Options has been recorded on the balance sheet as Purchase Consideration. As these options become vested, additional paid-in capital is increased or, alternatively, as the options are forfeited, the note payable to the seller is increased, with purchase consideration being reduced by a corresponding amount in either case.

The acquisition was accounted for under the purchase method of accounting. Accordingly, the results of operations of Softimage and the fair market value of the acquired assets and assumed liabilities have been included in the financial statements of the Company as of the acquisition date. As of the acquisition date, the purchase price was allocated to the acquired assets and assumed liabilities as follows (in thousands):

Working capital, net	$2,448
Property and equipment	3,958
Completed technologies	76,205
In-process research and development	28,373
Work force	7,790
Tradename	4,252
Deferred tax liability, net	(2,945)
Goodwill	127,779
	$247,860

The amounts allocated to identifiable tangible and intangible assets, including acquired in-process research and development, were based on results of an independent appraisal. Goodwill represents the amount by which the cost of acquired net assets exceeded the fair values of those net assets on the date of purchase. Acquired in-process research and development represented development projects in areas that had not reached technological feasibility and had no alternative future use. Accordingly, the amount of $28.4 million was charged to operations at the date of the acquisition, net of the related tax benefit of $8.2 million.

The values of completed technologies and in-process research and development were determined using a risk-adjusted, discounted cash flow approach. The value of in-process research and development, specifically, was determined by estimating the costs to develop the in-process projects into commercially viable products, estimating the resulting net cash flows from such projects, discounting the net cash flows back to their present values, and adjusting that result to reflect each project's stage of completion.

In-process research and development projects identified at the acquisition date include next-generation three-dimensional modeling, animation and rendering software, and new graphic, film and media management capabilities for effects-intensive, on-line finishing applications for editing. The nature of the efforts to develop the purchased in-process technology into commercially viable products principally relate to (i) completion of the animation and real-time playback architecture, completion and integration of architectural software components, validation of the resulting architecture, and finalization of the feature set; and (ii) the rebuilding of the framework architecture, the rewriting of software code of the compositing engine to accommodate significant new features, and the rewriting of software code of the titling component. If these projects are not successfully developed, the sales and profitability of the Company may be adversely affected in future periods.

On the acquisition date, the Company recorded deferred tax assets of $6.9 million related to tax credits and carryforwards of Softimage. An additional $2.6 million of deferred tax assets were not recorded at the acquisition date due to the uncertainty of their realization. If any benefit of these unrecorded tax credits and carryforwards is realized in the future, the non-current assets recorded upon the acquisition will be reduced at that time by a corresponding amount, before any benefit is recognized in the statement of operations. In the second quarter of 1999, the Company recorded reductions of $6.9 million to the goodwill and the deferred tax liability recorded upon the acquisition, due to the expectation of realizing tax return benefit related to certain tax credit carryforwards.

Accumulated amortization associated with identifiable intangible assets was approximately $44.1 million at September 30, 1999; accumulated amortization associated with goodwill was approximately $48.2 million at September 30, 1999. During the quarter ended September 30, 1999, the Purchase Consideration recorded for the value of Avid Options was reduced by approximately $13.5 million, resulting from increases to the Note of approximately $3.1 million for forfeited options and by increases to additional paid-in capital of approximately $10.4 million for options that became vested.

The following table presents unaudited pro forma information as if Avid and Softimage had been combined as of the beginning of the period 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 the results that actually would have resulted had Avid and Softimage been a combined company during the specified periods. The pro forma results include the effects of the purchase price allocation from amortization of acquisition-related intangible assets and exclude the charge for the purchased in-process technology and related tax benefit.

	Pro Forma Unaudited (in thousands, except per share amounts)
	For the Nine Months Ended September 30, 1998
Net revenue	$360,784
Net loss	($23,328)
Net loss per common share - basic and diluted	($0.92)
Weighted average common shares outstanding - basic and diluted	25,305

4. SUPPLEMENTAL CASH FLOW INFORMATION

The following table reflects supplemental cash flow investing activities related to the Softimage acquisition.

	Nine Months Ended September 30, 1998
Fair value of:	
Assets acquired and goodwill	$257,233
Liabilities assumed	(13,374)
Debt, common stock, stock options and	(164,859)
Cash paid	79,000
Less: cash acquired	(584)
Net cash paid for acquisition	$78,416

5. INVENTORIES

Inventories consist of the following (in thousands):

	September 30, 1999	December 31, 1998
Raw materials	$8,574	$6,193
Work in process	1,489	2,081
Finished goods	3,836	2,819
	$13,899	$11,093

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following (in thousands):

	September 30, 1999	December 31, 1998
Computer and video equipment	$95,569	$85,365
Office equipment	5,273	4,874
Furniture and fixtures	9,156	7,138
Leasehold improvements	16,649	15,287
	126,647	112,664
Less accumulated depreciation and amortization	89,982	77,266
	$36,665	$35,398

7. LINE OF CREDIT

The Company has an unsecured line of credit with a group of banks, which provides for up to $35.0 million in revolving credit. The line of credit agreement was renewed on June 29, 1999 to expire on June 28, 2000. Under the terms of the agreement, the Company must pay an annual commitment fee of 3/8% of the average daily unused portion of the facility, payable quarterly in arrears. The Company has two loan options available under the agreement: the Base Rate Loan and the LIBOR Rate Loan. The interest rates to be paid on the outstanding borrowings for each loan annually are equal to the Base Rate or LIBOR plus 1.25%, respectively. Additionally, the Company is required to maintain certain financial ratios and is bound by covenants over the life of the agreement, including a restriction on the payment of dividends. For the quarter ended September 30, 1999, the Company was not in compliance with certain of these financial covenants; however, the Company had no borrowings outstanding as of September 30, 1999.

8. INVESTMENT IN JOINT VENTURE

On January 27, 1999, the Company, with Tektronix, Inc., incorporated a 50% owned and funded newsroom venture, Avstar Systems LLC ("Avstar"), which began operations in February 1999 with its corporate office located in Madison, Wisconsin. The joint venture is dedicated to providing the next generation of digital news production products. The Company's investment in the joint venture is being accounted for under the equity method of accounting. The Company's initial contribution to the joint venture was approximately $2.0 million, consisting of $1.5 million in cash and $500,000 of licensed technology, fixed assets and inventory.

Tektronix, Inc. transferred its interest to a third party, Grass Valley Group Inc., in September 1999.

9. LONG-TERM DEBT AND PURCHASE CONSIDERATION

In connection with the acquisition of the business of Softimage, Avid issued a $5.0 million subordinated Note to Microsoft. The principal amount of the Note, including any adjustments as provided for in the underlying agreement relative to 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.

In connection with the acquisition of Softimage, the Company issued stock options to retained employees. As agreed with Microsoft, the value of the Note will be increased by $39.71 for each share underlying forfeited employee stock options. At the date of acquisition, the Company recorded these options as Purchase Consideration on the balance sheet at a value of $68.2 million. As these options become vested, additional paid-in capital is increased or, alternatively, as the options are forfeited, the Note is increased, with Purchase Consideration being reduced by a corresponding amount in either case. Through September 30, 1999, the Note has been increased by approximately $11.9 million for forfeited Avid stock options. The Company made cash payments of approximately $8.0 million for principal and $482,000 for interest during the nine months ended September 30, 1999, resulting in a note balance of $8.9 million.

10. CONTINGENCIES

On June 7, 1995, the Company filed a patent infringement complaint in the United States District Court for the District of Massachusetts against Data Translation, Inc., a Marlboro, Massachusetts-based company. Avid is seeking judgment against Data Translation that, among other things, Data Translation has willfully infringed Avid's patent number 5,045,940, entitled "Video/Audio Transmission System and Method." Avid is also seeking an award of treble damages together with prejudgment interest and costs, Avid's costs and reasonable attorneys' fees and an injunction to prohibit further infringement by Data Translation. The litigation has been dismissed without prejudice (with leave to refile) pending a decision by the U.S. Patent and Trademark Office on a reissue patent application based on the issued patent.

On March 11, 1996, the Company was named as defendant in a patent infringement suit filed in the United States District Court for the Western District of Texas by Combined Logic Company, a California partnership located in Beverly Hills, California. On May 16, 1996, the suit was transferred to the United States District Court for the Southern District of New York on motion by the Company. The complaint alleges infringement by Avid of U.S. patent number 4,258,385, issued in 1981, and seeks injunctive relief, treble damages and costs, and attorneys' fees. The Company believes that it has meritorious defenses to the complaint and intends to contest it vigorously. However, an adverse resolution of this litigation could have a material adverse effect on the Company's consolidated financial position or results of operations in the period in which the litigation is resolved. No costs have been accrued for this possible loss contingency.

The Company also receives inquiries from time to time with regard to additional possible patent infringement claims. These inquiries are generally referred to counsel and are in various stages of discussion. If any infringement is determined to exist, the Company may seek licenses or settlements. In addition, from time to time as a normal incidence of the nature of the Company's business, various claims, charges, and litigation have been asserted or commenced against the Company arising from or related to contractual or employee relations, 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.

11. COMPREHENSIVE LOSS

Total comprehensive loss, net of taxes, was approximately $11.4 million and $20.6 million for the three-month periods ended September 30, 1999 and 1998, respectively, and $32.4 million and $3.4 million for the nine-month periods ended September 30, 1999 and 1998, respectively, which consists of net losses, the net changes in foreign currency translation adjustment and the net unrealized gains and losses on available-for-sale securities. This calculation is in accordance with the requirements of Statement of Financial Accounting Standards No. 130 ("SFAS 130"), "Reporting Comprehensive Income," and has no impact on the Company's net loss or stockholders' equity.

12. 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: 1) Video and Film Editing and Effects and 2) Professional Audio.

The following is a summary of the Company's operations by operating segment for the three- and nine-month periods ended September 30, 1999 and 1998 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
Video and Film Editing and Effects:				
Net revenues	$92,250	$98,424	$272,130	$287,784
Depreciation	$4,579	$5,044	$14,193	$15,068
Operating income (loss)	($7,158)	$6,641	($12,529)	$20,144
Professional Audio:				
Net revenues	$21,029	$17,761	$68,785	$49,995
Depreciation	$241	$331	$765	$1,052
Operating income	$4,342	$2,989	$15,662	$8,781
Segment Totals:				
Net revenues	$113,279	$116,185	$340,915	$337,779
Depreciation	$4,820	$5,375	$14,958	$16,120
Operating income (loss)	($2,816)	$9,630	$3,133	$28,925

The following table reconciles segment operating income (loss) to total consolidated operating loss for the three- and nine-month periods ended September 30, 1999 and 1998 (in thousands):

	Three Months Ended September 30,		Nine Month Ended September 30,	
	1999	1998	1999	1998
Total operating income (loss) for reportable segments	($2,816)	$9,630	$3,133	$28,925
Unallocated amounts:				
Amortization of acquisition-related intangible assets	(19,789)	(13,701)	(60,087)	(13,701)
Nonrecurring costs		(28,373)		(28,373)
Consolidated operating loss	($22,605)	($32,444)	($56,954)	($13,149)

The 1999 unallocated amounts represent the amortization of acquired intangible assets, including goodwill, associated with the acquisition of Softimage. The 1998 unallocated amounts represent the nonrecurring costs for the in-process research and development and the amortization of acquired intangible assets, including goodwill, associated with the acquisition of Softimage as described in Note 3.

13. SUPPLEMENTAL RECONCILIATION OF NET INCOME (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 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,	
	1999	1998
Net loss	($13,120)	($21,573)
Adjustments:		
Nonrecurring costs		28,373
Amortization of acquisition-related intangible assets	19,789	13,701
Tax impact of adjustments	(8,102)	(12,465)
Tax-effected income (loss) excluding nonrecurring costs and amortization of acquisition-related intangible assets	($1,433)	$8,036
Tax-effected income (loss) per diluted share excluding nonrecurring costs and amortization of acquisition-related intangible assets	($0.06)	$0.30
Weighted average common shares outstanding - diluted - used for calculation	23,614	26,476

(in thousands, except per share data)

	For the Nine Months Ended September 30,	
	1999	1998
Net loss	($32,611)	($4,637)
Adjustments:		
Nonrecurring costs		28,373
Amortization of acquisition-related intangible assets	60,087	13,701
Tax impact of adjustments	(23,519)	(12,465)
Tax-effected income excluding nonrecurring costs and amortization of acquisition-related intangible assets	$3,957	$24,972

Tax-effected income per diluted share excluding nonrecurring costs and amortization of acquisition-related intangible assets	$0.15	$0.99
	=========	=========
Weighted average common shares outstanding - diluted - used for calculation	25,977	25,308
	=========	=========

The adjustments represent the nonrecurring costs for the in-process research and development and amortization of acquired intangible assets, including goodwill, associated with the acquisition of Softimage as described in Note 3. The tax provisions used in each period were based on a tax rate of 31% of the profit or loss before taxes, excluding the amortization of acquired intangible assets.

14. SUBSEQUENT EVENTS

On October 20, 1999, the Company announced certain senior management changes as well as the intention to develop and commence implementation of a restructuring plan within 30 days.

15. NEW ACCOUNTING PRONOUNCEMENTS

On July 7, 1999, the Financial Accounting Standards Board issued Statement of Accounting Standards No. 137 ("SFAS 137"), "Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective Date of FASB Statement No. 133 - an amendment of FASB Statement No. 133." SFAS 137 defers the implementation of SFAS 133 by one year. SFAS 133, as amended by SFAS 137, is effective for fiscal quarters beginning after January 1, 2001 for the Company, and its adoption is not expected to have a material impact on the Company's financial position or results of operations.

PART I. FINANCIAL INFORMATION

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

OVERVIEW

The text of this document includes forward-looking statements. Actual results may differ materially from those described herein, depending on such factors as are described herein, including those under "Certain Factors That May Affect Future Results."

Avid develops and provides digital film, video and audio editing and special effects software and hardware technologies to create media content for information and entertainment applications. Integrated with the Company's digital storage and networking solutions, Avid's products are used worldwide in video and audio production and post-production facilities; film studios; network, affiliate, independent and cable television stations and recording studios; and by advertising agencies; government and educational institutions; corporate users; and individual home users.

In August 1998, the Company acquired the business of Softimage. The acquisition was recorded as a purchase and, accordingly, the results of Softimage are included in the Company's financial statements as of the acquisition date.

On October 20, 1999, the Company announced certain senior management changes as well as the intention to develop and commence implementation of a restructuring plan within 30 days, designed to realign expenses with revenues while allowing for continued investment in areas of future growth.

On October 20, 1999, the Company announced the resignations of its Chairman and Chief Executive Officer William J. Miller, and President and Chief Operating Officer Clifford A. Jenks. On an interim basis, Chief Financial Officer and Treasurer William L. Flaherty has been named Acting Chief Executive Officer. David Krall, who was Chief Operating Officer at Digidesign, Avid's professional audio business, has been appointed Avid's President and Chief Operating Officer. A non-executive Director of the Company, Robert M. Halperin, was elected Chairman of the Board of Directors on October 27, 1999. The Board of Directors has initiated a search for a permanent Chief Executive Officer.

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 maintenance contracts. Net revenues decreased $2.9 million (2.5%) to $113.3 million in the quarter ended September 30, 1999 from $116.2 million in the same quarter of last year. This revenue decrease reflected significant declines due to pricing promotions on Macintosh-based Media Composer products as well as declines in unit sales of Avid Xpress Macintosh-based products, broadcast products, customer service and storage products. These declines were partially offset by sales of newer products, including Windows NT-based Media Composer and Avid Xpress, Avid

Symphony, Softimage DS, and Digidesign Pro Tools. Net revenues increased by $3.1 million (0.9%) to $340.9 million for the nine months ended September 30, 1999 from $337.8 million for the nine months ended September 30, 1998. This revenue increase represents sales of newer products, including Avid Symphony, Windows NT-based Media Composer and Avid Xpress, Digidesign Pro Tools, Softimage DS, and Softimage 3D, partially offset by declines in revenues for Macintosh-based Media Composer and Avid Xpress products, customer service, storage products and broadcast products.

During the third quarter of 1999, the Company began shipments of Avid Media Composer 9.0 for Windows NT, Avid Symphony 2.0, Avid Xpress 3.0 for Windows NT, Avid Xpress 2.5 for the Macintosh, and Softimage 3D 3.8 SP2. During 1999, Avid also began shipping Avid Unity MediaNet 1.0, Media Composer XL 8.0 for the Macintosh, Pro Tools|24 Mix and Mix Plus for Windows NT, and MediaDrive rS Plus. To date, returns of all products have been immaterial.

Net revenues derived through indirect channels were approximately 90% of net revenue for the three months ended September 30, 1999, compared to approximately 75% of net revenue for the same period in 1998. Indirect channel revenues were approximately 90% of net revenue for the nine months ended September 30, 1999 compared to approximately 74% for the same period in 1998.

International sales (sales to customers outside the U.S. and Canada) accounted for approximately 47% and 48% of the Company's third quarter 1999 and 1998 net revenues, respectively. International sales decreased by 5.0% in the third quarter of 1999 compared to the same period in 1998. The decrease occurred primarily in Europe, offset by an increase in the Asia region. International sales accounted for approximately 51% and 48% of the Company's net revenues for the first nine months of 1999 and 1998, respectively. International sales increased by 5.4% in the nine months ended September 30, 1999 from the same period in 1998. The increase in international sales reflected increases in sales in Asia, partially offset by a decrease in sales in Europe.

Gross Profit

Cost of revenues consists primarily of costs associated with the acquisition of components; the assembly, test, and distribution of finished products; warehousing; post-sales customer support costs; 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 included in the systems sold by the Company, the timing of new product introductions, the offering of product upgrades, price discounts and other sales promotion programs, the distribution channels through which products are sold, and sales of aftermarket hardware products. Gross margin decreased to 51.2% in the third quarter of 1999 compared to 60.5% in the third quarter of 1998 and decreased to 56.0% for the nine months ended September 30, 1999 from 59.7% for the same period in 1998. These decreases were primarily related to discounting and promotions, price reductions and product mix, all of which were partially offset by material cost savings.

Research and Development

Research and development expenses decreased $2.1 million (9.4%) in the third quarter of 1999 compared to the same period in 1998. This decrease is primarily related to reduced profit sharing and other personnel costs, partially offset by a full three months of Softimage expenses in 1999 compared to two months in 1998. Research and development expenses increased $3.8 million (6.0%) for the nine months ended September 30, 1999 compared to the same period of 1998. These increased expenditures were primarily due to incremental Softimage costs and facilities costs, partially offset by reductions in non-Softimage personnel costs. Research and development expenses decreased to 18.2% of net revenues in the third quarter of 1999 compared to 19.6% in the same quarter of 1998 and increased to 19.8% for the nine months ended September 30, 1999 from 18.9% for the nine months ended September 30, 1998. These changes were primarily due to the changes in research and development expenses noted above.

Marketing and Selling

Marketing and selling expenses increased approximately $2.6 million (8.4%) in the third quarter of 1999 compared to the same period in 1998 and increased $10.4 million (11.7%) for the nine months ended September 30, 1999 compared to the same period in 1998. These increased expenditures were primarily due to various marketing programs and personnel costs, including incremental Softimage expenses, for the full three- and nine-month periods in 1999. Marketing and selling expenses increased to 29.6% of net revenues in the third quarter of 1999 compared to 26.7% in the same quarter of 1998 and increased to 29.2% from 26.4% for the nine months ended September 30, 1999 and 1998, respectively. These increases were primarily due to the higher marketing and selling expenses noted above.

General and Administrative

General and administrative expenses decreased $300,000 (4.4%) in the third quarter of 1999 compared to the same period in 1998. The decrease in the three-month period reflects savings from reduced profit sharing expense, partially offset by increased expenditures on legal and consulting fees. General and administrative expenses increased $678,000 (3.4%) for the nine months ended September 30, 1999 compared to the same period in 1998. The increase in expenses for the nine-month period relates primarily to incremental Softimage costs, personnel costs and legal and consulting fees, partially offset by a reduction in profit sharing expense. General and administrative expenses decreased to 5.8% of net revenues in the third quarter of 1999 compared to 5.9% in the same quarter of 1998 and increased to 6.0% from 5.9% for the nine months ended September 30, 1999 and 1998, respectively. These changes were primarily due to the changes in expenses noted above.

Nonrecurring Costs and Amortization of Acquired Intangible Assets

In connection with the August 1998 acquisition of the business of Softimage, the Company allocated $28.4 million of the total purchase price to in-process research and development; $88.2 million to intangible assets consisting of completed technologies, work force and trade name; and $127.8 million to goodwill. In-process research and development represented development projects in areas that had not reached technological feasibility and had no alternative future use. Accordingly, its value of $28.4 million was expensed as of the acquisition date and is reflected as a nonrecurring charge to operations in the third quarter of 1998. Results for the three- and nine-month periods ended September 30, 1998 also reflect amortization of $13.7 million associated with the acquired intangible assets, including goodwill, as well as a tax benefit of $8.2 million related to the charge for in-process research and development (see Note 3 to the Condensed Consolidated Financial Statements). Results for the three- and nine-month periods ended September 30, 1999 reflect amortization of $19.8 million and $60.1 million, respectively, associated with these acquisition-related intangible assets.

In the second quarter of 1999, the Company recorded reductions of $6.9 million to the goodwill and the deferred tax liability recorded upon the acquisition, due to the expectation of realizing tax return benefit related to certain tax credit carryforwards.

Interest and Other Income, Net

Interest and other income, net consists primarily of interest income, other income and interest expense. Interest and other income, net for the three months ended September 30, 1999 decreased $1.3 million as compared to the same period in 1998. For the nine months ended September 30, 1999, interest and other income, net decreased $4.7 million as compared to the same period in 1998. For both periods the decrease was primarily due to lower cash and investment balances.

Benefit from Income Taxes

The Company's effective tax rate was 40% for the three and nine months ended September 30, 1999 compared to 29% and 21% for the three and nine months ended September 30, 1998, respectively. The effective tax rate for 1999 is different from the U.S. Federal statutory rate of 35% due to the Company's foreign subsidiaries, which are taxed in the aggregate at a lower rate, state taxes, and the U.S. Federal Research Tax Credit. The effective tax rate for 1998 is different from the U.S. Federal statutory rate of 35% due primarily to the Company's foreign subsidiaries, which are taxed in the aggregate at a lower rate, state taxes, the U.S. Federal Research Tax Credit, and acquisition-related items.

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, 1999, the Company's principal sources of liquidity included cash, cash equivalents and marketable securities totaling approximately $83.1 million.

With respect to cash flow, net cash provided by operating activities was $15.4 million for the nine months ended September 30, 1999 compared to $41.1 million in 1998. During the nine months ended September 30, 1999, net cash provided by operating activities consisted primarily of the net loss adjusted for non-cash depreciation and amortization, increases in long-term deferred tax assets, collections of accounts receivable, and a decrease in accrued expenses. During the nine months ended September 30, 1998, net cash provided by operating activities was primarily from net income after adjustment for the non-cash charge for in-process research and development in connection with the acquisition of Softimage, and for non-cash depreciation and amortization, as well as from collections of accounts receivable offset by decreases in accounts payable, accrued expenses and deferred revenues.

The Company purchased $19.2 million of property and equipment and other long-term assets during the nine months ended September 30, 1999, compared to $12.5 million in the same period in 1998. These purchases included hardware and software for the Company's information systems and equipment to support research and development activities. The Company also utilized $8.0 million to repay a portion of the note issued to Microsoft in connection with the acquisition of Softimage. Additionally, the Company made a cash investment of $1.5 million into a joint venture with Tektronix, Inc.

The Company maintains a line of credit agreement with a group of banks that provides for up to $35.0 million in unsecured revolving credit. The line of credit agreement, as renewed and amended, expires on June 28, 2000. Under the terms of the agreement, the Company must pay an annual commitment fee of 3/8% of the average daily unused portion of the facility, payable quarterly in arrears. The Company has two loan options available under the agreement: the Base Rate Loan and the LIBOR Rate Loan. The interest rates to be paid on the outstanding borrowings for each loan annually are equal to the Base Rate or LIBOR plus 1.25%, respectively. Additionally, the Company is required to maintain certain financial ratios and is bound by covenants over the life of the agreement, including a restriction on the payment of dividends. For the quarter ended September 30, 1999, the Company was not in compliance with certain of these financial covenants; however no borrowings were outstanding. The Company believes existing cash, cash equivalents and marketable securities, and internally generated funds will be sufficient to meet the Company's cash requirements, including capital expenditures, at least through the next twelve months. In the event the Company requires additional financing, the Company believes that it would be able to obtain such financing; however, there can be no assurance that it would be successful in doing so, or that it could do so on terms favorable to the Company.

On October 23, 1997, February 5, 1998 and October 21, 1998, the Company announced that the Board of Directors authorized the repurchase of up to 1.0 million, 1.5 million and 2.0 million shares, respectively, of the Company's common stock. Purchases have been and may be made in the open market or in privately negotiated transactions. The Company has used and will continue to use any repurchased shares for its employee stock plans. As of December 31, 1998, the Company had repurchased approximately 2.9 million shares of Avid common stock at a cost of $90.6 million, which completed the programs announced during October 1997 and February 1998 and initiated the program announced in October 1998. During the nine months ended September 30, 1999, the Company purchased an additional 1.2 million shares at a cost of $19.5 million. As of September 30, 1999, the balance of shares authorized for repurchase was approximately 360,000 shares.

Other planned uses of cash include the efforts to develop the purchased in-process research and development related to the Softimage acquisition into commercially viable products. Additionally, the note issued to Microsoft in connection with the Softimage acquisition is due and payable in June 2003.

YEAR 2000 READINESS DISCLOSURE

The Company has a worldwide program in place to address any potential exposure for the Year 2000 issue. This program is designed to minimize the possibility of significant Year 2000 interruptions. Possible worst case scenarios include the interruption of significant parts of the Company's business as a result of critical business systems failures or failures experienced by suppliers, resellers, or customers. Any such interruption may have a material adverse impact on future results. Since the possibility of such interruptions cannot be eliminated, the Company has engaged a significant number of cross-functional resources with technical, business, legal, and financial expertise in order to achieve Year 2000 readiness.

In 1998, the Company established a worldwide program to address its software and hardware product and customer concerns, its internal business systems, including technology infrastructure and embedded technology systems, and the compliance of its suppliers. This program includes the following phases: identification, assessment, testing, remediation, and contingency planning. As of the date of this filing, the Company has completed virtually all of the scheduled identification, assessment, testing and remediation phases of its plan, and is engaged in finalizing its contingency plans. The Company expects to continue to review and evaluate all pertinent information relating to the Company's Year 2000 readiness, which could result in the Company taking additional steps with regard to those efforts it had previously believed were complete.

With regard to its products, the Company faced the task of assessing the Year 2000 readiness of past and currently shipping products, as well as future products not yet released. The Company has completed its planned efforts for the prior versions of its products as well as products currently shipping as of September 30, 1999. A description of the readiness status of those products is available on the Company's web site, which is updated from time to time. This web site has been and will continue to be the Company's primary method for communicating Y2K readiness information about its products to the public. Of the products considered for testing, almost all of the current versions of the Company's currently shipping products, along with certain older versions of current products, have been classified as "Year 2000 Ready." The "Year 2000 Ready" category indicates that the Company has determined that the product, when used in its designated manner, will not terminate abnormally or give incorrect results with respect to date data before, during or after December 31, 1999, provided that all products used in conjunction with the Company's product exchange accurately formatted information with the Company's product. A few products required software updates to address potential Year 2000 issues and these updates have been completed. The Company has also determined that a number of discontinued or older versions of products will not be tested for Year 2000 issues, and thus makes no representations with regard to the Year 2000 readiness status of those products. With regard to future products, the Company's ongoing business schedule calls for the release of products in the fourth quarter of 1999, or later. The Company's policy is to insure Year 2000 readiness of those products upon introduction.

The Company will continue to monitor and evaluate all pertinent information relating to its products and product program, which could result in the Company taking additional steps with regard to those efforts it believed were complete or decide to test products it had not originally scheduled for testing. Because all customer situations or potential Year 2000 product issues cannot be anticipated, the Company may, despite its efforts, see an adverse change in demand or an increase in warranty or service claims as a result of the Year 2000 transition. In addition, because the Company's products are used in conjunction with products made by third parties, the failure of such third party products to be Year 2000 ready could adversely impact the Company's products. Such events, should they occur, could have a material adverse impact on numerous aspects of the Company, including future results, sales, or customer satisfaction.

With respect to the Company's internal business systems, the Company estimates that, as of the filing date, it has completed approximately 99% of its planned activities for its mission critical internal business systems. The scope of these efforts is designed to encompass substantially all of the Company's internal information systems and other infrastructure areas including communication systems, building security systems and embedded technologies in areas such as manufacturing and customer support processes. Due to the complex nature of the remediation efforts itself, as well as the critical nature of ongoing projects unrelated to Year 2000 issues, the testing and remediation of a few departmental systems have been delayed until the fourth quarter of 1999. Neither the delay nor the use of these systems in their unremediated state is expected to have a material impact on either the completion of the Year 2000 program or the Company itself. Certain of the Company's business systems were already scheduled to be replaced in the normal course of business for reasons unrelated to potential Year 2000 issues. Those systems have been tested as part of the overall program and are scheduled for implementation worldwide in January 2000. The Company intends to continue to monitor its internal business systems throughout the remainder of 1999 and into the Year 2000. Any subsequent information could require the Company to take additional steps to ensure the Year 2000 readiness of internal systems for which the planned Year 2000 efforts were believed to be complete.

The Company initiated communications with mission critical third party suppliers and service providers, such as inventory suppliers, equipment suppliers, financial institutions, landlords, and resellers, to determine the extent to which the Company's operations may be vulnerable to those third parties' own Year 2000 issues. Suppliers of software, hardware or other products that might contain embedded processors were requested to provide certification regarding the Year 2000 readiness status of their products and business processes. Suppliers of services were also requested to provide certification or other appropriate information regarding their Year 2000 readiness status. With respect to resellers, the Company has requested appropriate assurances regarding Year 2000 readiness status of their business processes. In addition, in order to protect against the acquisition of additional products or services that may not be Year 2000 ready, the Company implemented a policy that requires assurances that such products and services are Year 2000 ready.

As of the date of filing, the Company had received responses from approximately 97% of its mission critical third party suppliers and service providers. The Company intends to continue to monitor its third party suppliers and service providers as part of the Company's overall program. For mission critical third parties that interface with the Company via electronic means, the Company has tested mission critical interfaces where possible. In addition, the Company intends to continue to seek additional information and confirmation from those third parties who failed to respond, whose initial responses were deemed inadequate, or whose responses indicated that they were addressing their Year 2000 issues, but their programs would not be complete until the end of 1999. Despite these efforts, the possibility remains that the Company could be adversely affected by third parties who may prove unable to address and remediate their Year 2000 issues, including but not limited to those who may have previously assured the Company of their readiness. While the Company is developing contingency plans where possible to address the products or services obtained from third parties, there can be no assurance that the Company will be able to resolve all potential Year 2000 issues.

As of the date of filing, the Company had completed approximately 88% of its contingency planning effort, excluding testing. The contingency plans are expected to address all mission critical areas of the Company, including its infrastructure, internal business systems and third party suppliers and service providers. In particular, the Company has identified three critical areas as the focus of the contingency plans: customer support, cash flow and revenue generation as well as infrastructure attendant to information systems, facilities, and employees. The contingency plans address business continuation efforts such as, but not limited to, working from remote sites, utility interruptions, and receipt and payment of cash flow. Due to the complexity and scope of the contingency planning process, as well as the impact of unrelated critical business processes, completion of some contingency plans will occur during the fourth quarter. Testing of the contingency plans, where possible, is scheduled to be completed before the end of 1999. The Company does not expect the schedule for testing the plans during the fourth quarter to cause a material impact on the Company's preparedness as a whole.

The costs of the Year 2000 readiness program are primarily costs of existing internal resources and expertise combined with small incremental external spending for resources such as consultants or updates. The entire cost of the program is estimated at $3.8 million, of which approximately 90% was incurred through September 30, 1999. Although the Company does not, as a general practice, track internal personnel costs, the Company has included estimates of such costs in the above program cost estimate. Costs for business system replacements or upgrades unrelated to Year 2000 issues are not included in this estimate. No future material product readiness costs are anticipated. However, milestones and implementation dates and the costs of the Company's Year 2000 readiness program are subject to change based on new circumstances that may arise or new information becoming available.

Based on the Company's ongoing evaluation of internal information and other systems, as well as the currently available information about third parties, the Company does not currently anticipate significant business interruptions that would have a material impact on the Company. Nevertheless, the Company acknowledges that it is not in a position to evaluate or resolve all potential Year 2000 scenarios and therefore remains uncertain as to whether or to what extent the Company may actually be affected by any particular Year 2000 issue. Indeed, the predictions of potential impacts varies among different governments, experts, authorities, commentators, or companies, making it impossible to predict what the actual impact on the Company may be. As with any company, there remains the risk that errors or defects related to the Year 2000 issue may remain undetected. Moreover, satisfactorily addressing a particular Year 2000 issue on a timely basis is dependent on many factors, some of which are not completely within the Company's control, such as those involving third parties. If the Company's contingency plans prove to be inadequate, if business interruptions occur or last for an extended period of time, if alternatives are not available at reasonable costs, or if a significant Year 2000 issue should go undetected, the Company could also face a material adverse impact on its future results.

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 will also remain legal tender in the participating countries for a transition period between January 1, 1999 and 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 will change its functional currencies for the effected countries to the euro by the end of the three-year transition period. 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.

NEW ACCOUNTING PRONOUNCEMENTS

On July 7, 1999, the Financial Accounting Standards Board issued Statement of Accounting Standards No. 137 ("SFAS 137"), "Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective Date of FASB Statement No. 133 - an amendment of FASB Statement No. 133." SFAS 137 defers the implementation of SFAS 133 by one year. SFAS 133, as amended by SFAS 137, is effective for fiscal quarters beginning after January 1, 2001 for the Company, and its adoption is not expected to have a material impact on the Company's financial position or results of operations.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

A number of uncertainties exist that could affect the Company's future operating results, including, without limitation, the following:

The Company began shipping products based on Intel Architecture ("IA") computers and the Microsoft Windows NT operating system towards the end of 1998. The Company continued to offer products and new releases on this platform, as well as on the Macintosh platform, during 1999. The Company expects that a significant portion of its future revenues will be attributable to sales of these newly introduced products. However, if these products fail to achieve anticipated levels of market acceptance or the markets do not develop as anticipated, the Company's revenues and results of operations could be adversely affected. The Company from time to time will develop new products or upgrade existing products to incorporate advances in enabling technologies. For example, the Company is continuing to develop additional products that operate using IA -based computers and the Windows NT operating system. There can be no assurance that customers will not defer purchases of existing Apple-based and other products in anticipation of the release of such new products, that the Company will be successful in developing additional new products or that they will gain market acceptance, if developed. Any deferral by customers of purchases of existing Apple-based or other products or any failure by the Company to develop such new products in a timely way or to gain market acceptance for them could have a material adverse effect on the Company's business and results of operations.

Certain of the Company's products operate only on specific computer platforms. The Company currently relies on Apple Computer, Inc., IBM and Intergraph as the sole manufacturers of such computer platforms. There can be no assurance that the respective manufacturers will continue to develop, manufacture, and support such computer platforms suitable for the Company's existing and future markets or that the Company will be able to secure an adequate supply of computers on the appropriate platforms, the occurrence of any of which could have a material adverse effect on the Company's business and results of operations.

The Company's core base video editing market predominantly uses Avid product and future growth in this market is limited. Accordingly, the Company has expanded its product line to address the digital media production needs of the television broadcast news market, online film and video finishing market and the emerging market for multimedia production tools, including the corporate market. The Company has limited experience in serving these markets, and there can be no assurance that the Company will be able to develop such products successfully, that such products will achieve widespread customer acceptance, or that the Company will be able to develop distribution and support channels to serve these markets. A significant portion of the Company's future growth will depend on customer acceptance in these and other new markets. Any failure of such products to achieve market acceptance, additional costs and expenses incurred by the Company to improve market acceptance of such products and to develop new distribution and support channels, or the withdrawal from the market of such products or of the Company from such new markets could have a material adverse effect on the Company's business and results of operations.

The Company's gross margin fluctuates based on factors such as the mix of products sold, the cost and the proportion of third-party hardware included in the systems sold by the Company, the distribution channels through which products are sold, the timing of new product introductions, the offering of product and platform upgrades, price discounts and other sales promotion programs, the volume of sales of aftermarket hardware products, the costs of swapping or fixing products released to the market with errors or flaws, provisions for inventory obsolescence, allocations of overhead costs to manufacturing and of customer support costs to cost of goods, sales of third-party computer hardware to its distributors, and competitive pressure on selling prices of products. The Company's systems and software products typically have higher gross margins than storage devices and product upgrades. Gross profit varies from product to product depending primarily on the proportion and cost of third-party hardware included in each product. The Company, from time to time, adds functionality and features to its systems. If such additions are accomplished through the use of more, or more costly, third-party hardware, and if the Company does not increase the price of such systems to offset these increased costs, the Company's gross margins on such systems would be adversely affected.

The Company sells most of its products and services through indirect channels such as distributors and resellers. The Company predominantly sells software and circuit board "kits" through indirect channels in comparison with turnkey systems consisting of CPUs, monitors, and peripheral devices, including accompanying software and circuit boards, sold through its direct sales force to customers. Resellers and distributors typically purchase software and "kits" from the Company and other turnkey components from other vendor sources in order to produce complete systems for resale. As the majority of the Company's sales are through the indirect channel model, it has a significant dependence on its resellers and their third party component suppliers. Any disruption to its resellers or their suppliers may adversely affect the Company's revenue and gross margin.

The Company's operating expense levels are based, in part, on its expectations of future revenues. In recent quarters approximately half of the Company's revenues for the quarter have been recorded in the third month of the quarter. Further, in many cases, quarterly operating expense levels cannot be reduced rapidly in the event that quarterly revenue levels fail to meet internal expectations. Therefore, if quarterly revenue levels fail to meet internal expectations upon which expense levels are based, the Company's operating results may be adversely affected and there can be no assurance that the Company would be able to operate profitably. As previously noted, the Company has announced that a restructuring plan will be developed in November 1999. Reductions of certain operating expenses, in the face of lower than expected revenues, likely will involve material one-time charges associated with reductions in headcount, trimming product lines, eliminating facilities and offices, and writing off certain assets.

Effective October 20, 1999, William J. Miller resigned as Chairman and Chief Executive Officer of the Company. The Company's success depends in large part upon the services of a number of key employees. The loss of the services of one or more of these key employees could have a material adverse effect on the Company. The Company's success will also depend in significant part upon its ability to continue to attract highly skilled personnel to fill a number of vacancies. William L. Flaherty, the Company's Chief Financial Officer and Treasurer, has assumed the role of Acting Chief Executive Officer while the Company conducts a search for a new Chief Executive Officer. There can be no assurance that the Company will be successful in its search for a new Chief Executive Officer or in attracting and/or retaining key employees generally.

The Company is dependent on a number of suppliers as sole source vendors of certain key components of its products and systems. Components purchased by the Company from sole source vendors include; video compression chips manufactured by C-Cube Microsystems; a small computer systems interface ("SCSI") accelerator board from ATTO Technology; a 3D digital video effects board from Pinnacle Systems; application specific integrated circuits ("ASICS") from Chip Express and LSI Logic; digital signal processing integrated circuits from Motorola; a fibre channel adapter card from JNI; a fibre channel storage array from Data General's Clariion division; and a PCI expansion chassis from Magma Inc. The Company purchases these sole source components pursuant to purchase orders placed from time to time. The Company also manufactures certain circuit boards under license from Truevision (a subsidiary of Pinnacle Systems). The Company generally does not carry significant inventories of these sole source components and has no guaranteed supply arrangements. No assurance can be given that sole source suppliers will devote the resources necessary to support the enhancement or continued availability of such components or that any such supplier will not encounter technical, operating or financial difficulties that might imperil the Company's supply of such sole source components. While the Company believes that alternative sources of supply for sole source components could be developed, or systems redesigned to permit the use of alternative components, its business and results of operations could be materially affected if it were to encounter an untimely or extended interruption in its sources of supply.

The markets for digital media editing and production systems are intensely competitive and subject to rapid change. The Company encounters competition in the video and film editing and effects and professional audio markets. Many current and potential competitors of the Company have substantially greater financial, technical, distribution, support, and marketing resources than the Company. Such competitors may use these resources to lower their product costs and thus be able to lower prices to levels at which the Company could not operate profitably. Further, such competitors may be able to develop products comparable or superior to those of the Company or adapt more quickly than the Company to new technologies or evolving customer requirements. Accordingly, there can be no assurance that the Company will be able to compete effectively in its target markets or that future competition will not adversely affect its business and results of operations.

The Company has significant deferred tax assets. The deferred tax assets of approximately $75.5 million at September 30, 1999 reflect the net tax effects of tax credit and operating loss carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Although realization is not assured, management believes it is more likely than not that all of the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

A significant portion of the Company's business is conducted in currencies other than the U.S. dollar. Changes in the value of major foreign currencies relative to the value of the U.S. dollar, therefore, could adversely affect future revenues and operating results. The Company attempts to reduce the impact of currency fluctuations on results through the use of forward exchange contracts that hedge foreign currency-denominated intercompany net receivables or payable balances. The Company has generally not hedged transactions with external parties, although it periodically reevaluates its hedging practices.

The Company is involved in various legal proceedings, including patent litigation; an adverse resolution of any such proceedings could have a material adverse effect on the Company's business and results of operations. See Note 10 to the Condensed Consolidated Financial Statements.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS.

27 Financial Data Schedule

(b) REPORTS ON FORM 8-K. For the fiscal quarter ended September 30, 1999, 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 5, 1999 By: /s/ William L. Flaherty
William L. Flaherty,
Senior Vice President of Finance,
Chief Financial Officer and Treasurer
(Principal Financial Officer),
Acting Chief Executive Officer

Date: November 5, 1999 By: /s/ Carol L. Reid
Carol L. Reid
Vice President and Corporate Controller
(Principal Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
27	Financial Data Schedule

5

THIS SCHEDULE CONTAINS SUMMARY INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEETS ON THE FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 30, 1999 AND THE CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS AS FILED ON FORM 10-Q FOR THE PERIOD ENDED September 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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9-MOS
DEC-31-1999
JAN-01-1999
SEP-30-1999
57,578
25,498
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7,267
13,899
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