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

FORM 10-Q

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

For the quarterly period ended September 30, 1998

OR

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

Commission File Number: 0-18805

ELECTRONICS FOR IMAGING, INC.
(Exact name of registrant as specified in its charter)

Delaware	94-3086355
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2855 Campus Drive, San Mateo, CA 94403
(Address of principal executive offices, including zip code)

(650) 286-8600
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required 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), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No [ ]

The number of shares of Common Stock outstanding as of November 4, 1998 was 53,158,268.

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PART I Financial Information

ITEM 1. Condensed Consolidated Financial Statements

ELECTRONICS FOR IMAGING, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
Revenue	$ 125,327	$ 107,323	$ 304,007	$ 298,962
Cost of revenue	71,436	48,295	171,770	134,795
	53,891	59,028	132,237	164,167
Operating expenses:				
Research and development	14,914	10,753	43,087	28,144
Sales and marketing	13,957	10,520	43,241	30,565
General and administrative	4,120	2,913	11,449	8,627
	32,991	24,186	97,777	67,336
Income from operations	20,900	34,842	34,460	96,831
Other income, net	2,419	2,523	6,229	7,779
Income before income taxes	23,319	37,365	40,689	104,610
Provision for income taxes	6,816	13,451	13,070	37,659
Net income	$ 16,503	$ 23,914	$ 27,619	$ 66,951
Net income per basic common share	$ 0.31	$ 0.46	$ 0.52	$ 1.29
Shares used in per share calculation (basic)	52,641	52,139	52,608	51,866

Net income per diluted common share	$ 0.31	$ 0.43	$ 0.51	$ 1.20
Shares used in per share calculation (diluted)	53,929	56,216	54,067	55,897

<FN>
See accompanying notes to condensed consolidated financial statements.
</FN>

ELECTRONICS FOR IMAGING, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

	September 30, 1998	December 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 64,742	$ 57,195
Short-term investments	214,723	185,536
Accounts receivable, net	70,423	30,930
Inventories	16,202	23,790
Other current assets	25,043	32,445
Total current assets	391,133	329,896
Property and equipment, net	45,852	46,502
Other assets	8,733	9,600
Total assets	$ 445,718	$ 385,998
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 37,253	$ 20,255
Accrued and other liabilities	26,532	19,891
Income taxes payable	11,020	2,923
Total current liabilities	74,805	43,069
Long-term debt	3,924	4,064
Stockholders' equity:		
Preferred Stock, $.01 par value, 5,000,000 shares authorized; none issued and outstanding	--	--
Common Stock, $.01 par value, 150,000,000 shares authorized; 52,657,312 and 52,558,383 shares issued and outstanding, respectively	527	524
Additional paid-in capital	137,914	137,264
Cumulative translation adjustment	(148)	--
Retained earnings	228,696	201,077
Total stockholders' equity	366,989	338,865
Total liabilities and stockholders' equity	$ 445,718	$ 385,998

<FN>
See accompanying notes to condensed consolidated financial statements.
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ELECTRONICS FOR IMAGING, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	1998	1997
Cash flows from operating activities:		
Net income	$ 27,619	$ 66,951
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,146	4,454
Provision for doubtful accounts and sales returns	241	(1,269)
Other	(148)	--
Changes in operating assets and liabilities:		
Accounts receivable	(39,734)	(12,944)
Inventories	7,588	(4,746)
Receivables from subcontract manufacturers	7,808	(4,184)
Other current assets	(406)	(4,898)
Accounts payable and accrued liabilities	23,639	9,638
Income taxes payable	8,097	12,240
Net cash provided by operating activities	44,850	65,242
Cash flows from investing activities:		
Purchase of short-term investments	(147,927)	(141,013)
Sales and maturities of short-term investments	118,740	102,639
Purchase of property and equipment, net	(8,679)	(30,210)
Increase (decrease) of other assets, net	50	(83)
Net cash used for investing activities	(37,816)	(68,667)
Cash flows from financing activities:		
Repayment of bonds payable	(140)	--
Issuance of common stock related to stock plans	653	8,501
Net cash provided by financing activities	513	8,501
Net change in cash and cash equivalents	7,547	5,076
Cash and cash equivalents at beginning of period	57,195	71,946
Cash and cash equivalents at end of period	$ 64,742	$ 77,022

<FN>
See accompanying notes to condensed consolidated financial statements.
</FN>

ELECTRONICS FOR IMAGING, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands)
(Unaudited)

1. Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements of Electronics for Imaging, Inc. (the Company) as of and for the interim periods ended September 30, 1998, have been prepared on the

same basis as the audited consolidated financial statements as of and for the year ended December 31, 1997, contained in the Company's Annual Report to Stockholders. In the opinion of management the condensed consolidated financial statements include all adjustments (consisting generally of normal recurring adjustments) necessary to present fairly the financial position of the Company and the results of its operations and cash flows, in accordance with generally accepted accounting principles. The interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto referred to above.

The preparation of the interim condensed consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the interim condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The interim results of the Company are subject to fluctuation. As a result, the Company believes the results of operations for the interim periods ended September 30, 1998 are not necessarily indicative of the results to be expected for any other interim period or the full year.

2. Comprehensive Income

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income". This Statement requires that all items recognized under accounting standards as components of comprehensive earnings be reported in an annual financial statement that is displayed with the same prominence as other annual financial statements. This Statement also requires that an entity classify items of other comprehensive earnings by their nature in an annual financial statement. There was no material difference between Comprehensive income and Net income for the three and nine months ended September 30, 1998.

3. Accounting for Derivative Instruments and Hedging

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (SFAS 133) Accounting for Derivative Instruments and Hedging. SFAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities and requires, among other things, that all derivatives be recognized as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS 133 is effective for fiscal quarters and fiscal years beginning after June 15, 1999. The Company is currently studying the provisions of the SFAS 133 and the potential impact it may have on its financial statements.

4. Earnings Per Share

In February 1997, The Financial Accounting Standards Board issued Statement of Financial Accounting Standards SFAS No. 128, "Earnings per Share" (SFAS No. 128). The Statement redefines earnings per share (EPS) under generally accepted accounting principles. Under the new standard, primary EPS is replaced by basic EPS and fully diluted EPS is replaced by diluted EPS. It also requires dual presentation of basic and diluted EPS on the face of the financial statements. SFAS No. 128 was adopted in the fourth quarter of 1997 and the EPS for all periods presented have been restated to conform with the provisions of SFAS No. 128. The following table represents unaudited disclosures of basic and diluted EPS in accordance with SFAS No. 128 for the periods presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
(in thousands, except per share amounts)				

Net income available to common shareholders	$16,503	$23,914	$27,619	$66,951
Shares				
Basic shares	52,641	52,139	52,608	51,866
Effect of Dilutive Securities	1,288	4,077	1,459	4,031
Diluted shares	53,929	56,216	54,067	55,897
Earnings per common share				
Basic EPS	$ 0.31	$ 0.46	$ 0.52	$ 1.29
Diluted EPS	$ 0.31	$ 0.43	$ 0.51	$ 1.20

Antidilutive Options. Options to purchase 2,890,000 and 50,000 shares of common stock outstanding as of September 30, 1998 and 1997, respectively, were not included in the computations of diluted EPS for the three-month periods then ended because the options' exercise prices were greater than the average market price of the common shares for the three month periods then ended. Options to purchase 2,849,000 and 345,000 shares of common stock outstanding as of September 30, 1998 and 1997, respectively, were not included in the computations of diluted EPS for the nine-month periods then ended because the options' exercise prices were greater than the average market price of the common shares for the nine month periods then ended.

6. Balance Sheet Components (in thousands)

	September 30, 1998	December 31, 1997
Accounts receivable:		
Accounts receivable	$ 72,049	$ 32,315
Less Allowance for doubtful accounts and sales returns	(1,626)	(1,385)
	$ 70,423	$ 30,930
Inventories:		
Raw materials	$ 13,895	$ 19,216
Work-in-process	1,393	3,183
Finished goods	914	1,391
	$ 16,202	$ 23,790
Other current assets:		
Receivable from subcontract manufacturers	$ 9,834	$ 17,642
Other	15,209	14,803
	$ 25,043	$ 32,445
Property and equipment:		
Land	$ 27,461	$ 27,351
Equipment and purchased software	41,575	34,201
Furniture and leasehold improvements	7,717	7,494
	76,753	69,046
Less accumulated depreciation and amortization	(30,901)	(22,544)
	$ 45,852	$ 46,502

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

The following discussion and analysis should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and the audited consolidated financial statements of Electronics for Imaging, Inc. (the Company) and related notes thereto contained in the Company's 1997 Annual Report to Stockholders. Results for the three and nine month periods ended September 30, 1998 are not necessarily indicative of the results expected for the entire fiscal year ending December 31, 1998. All assumptions, anticipations, expectations and forecasts contained herein are forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those discussed here. For a more complete discussion of factors which might impact the Company's results, please see the section entitled "Factors that Could Adversely Affect Performance" below and in the Company's 1997 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission. The Company periodically reviews such factors to ensure their appropriateness.

Results of Operations for the Three and Nine Month Periods Ended September 30, 1997 and 1998

Revenue

Revenue increased 16.8% to $125.3 million in the third quarter of 1998, compared to $107.3 million in the third quarter of 1997, and the corresponding unit volume increased approximately 161.4%. Revenue increased 1.7% to $304.0 million in the nine month period ended September 30, 1998, compared to $299.0 million in the same period of 1997, and the corresponding unit volume increased approximately 91.9%. The increase in revenue is primarily due to significant increases in unit volumes and positive market acceptance of new product introductions, partially offset by price reductions on older product lines in anticipation of new product introductions.

The Company's revenue for 1998 is principally derived from three major categories. The first category is made up of stand-alone servers which connect digital color copiers into computer networks. This category includes Fiery XJ and XJ+, which accounted for a vast majority of the Company's revenue prior to 1998. The second category is made up of embedded, desktop and bundled color solutions primarily for the office market. The third category is made up of controllers for digital black & white products.

The following is a break-down of categories of Revenue both in terms of volume, as a percentage (%) of total units shipped, and absolute revenue dollars.

	Three Months Ended September 30, 1998			Three Months Ended September 30, 1997		
(dollars in thousands)	Volume	Revenue		Volume	Revenue	
Stand-alone Servers Connecting to Digital Color Copiers	27.8%	$ 83,865	66.9%	83.6%	$ 92,852	86.5%
Embedded, Desktop Controllers & Bundled Color Solutions	54.1%	26,067	20.8%	16.4%	5,747	5.4%
Controllers for Digital Black & White Solutions	18.1%	4,674	3.7%	0.0%	0	0.0%
Spares, licensing & other misc. sources	N/A	10,721	8.6%	N/A	8,724	8.1%
Total revenues	100.0%	$ 125,327	100.0%	100.0%	$ 107,323	100.0%

(dollars in thousands)	Nine Months Ended September 30, 1998 Volume	Revenue		Nine Months Ended September 30, 1997 Volume	Revenue	
Stand-alone Servers Connecting to Digital Color Copiers	33.0%	$ 208,876	68.7%	72.4%	$ 239,719	80.2%
Embedded, Desktop Controllers & Bundled Color Solutions	50.9%	54,693	18.0%	27.6%	30,207	10.1%
Controllers for Digital Black & White Solutions	16.1%	13,512	4.4%	0.0%	0	0.0%
Spares, licensing & other misc. sources	N/A	26,926	8.9%	N/A	29,036	9.7%
Total revenues	100.0%	$ 304,007	100.0%	100.0%	$ 298,962	100.0%

As noted above growth took place in the three and nine months ended September 30, 1998 in the two newer product categories - the Embedded Desktop Controllers & Bundled Color Solutions and the Controllers for Digital Black and White Solutions. These products are generally characterized by much higher unit volumes but lower unit prices and associated margins than the Company has experienced in its more traditional Stand-alone Server line of products. Over time the Company anticipates further growth in these newer categories as a percentage of total revenue. To the extent these categories do not grow over time in absolute terms or the Company is not able to meet demand for higher unit volumes, it could have a material adverse affect on the Company. The Company believes that Stand-alone server products have not experienced year over year revenue growth in 1998 due largely to price reductions on the Company's older generations of product that the Company believes are, and will be effectively replaced by newer product as the different OEM customers qualify that new product and begin to order in increasing volumes. In addition, low end products which previously shipped as servers have in 1998 begun to ship as embedded products. There can be no assurance that the new products will be qualified by all the OEM's or successfully compete or be accepted by the market or otherwise not be able to effectively replace the volume of revenue and, or income from the older products.

Sales by geographic market for the three and nine months ended September 30, 1997 and 1998 were as follows:

	Three Months Ended September 30, 1998	1997	Increase (Decrease)	Nine Months Ended September 30, 1998	1997	Increase (Decrease)
North America	$ 64,098	$ 45,041	42.3%	$ 147,178	$ 138,690 **	6.1% **
Europe	38,920	36,331	7.1%	102,829	90,617 **	13.5% **
Japan	18,857	20,315	(7.2%)	44,697	57,868	(22.8%)
Rest of World	3,452	5,636	(38.8%)	9,303	11,787	(21.1%)
	$ 125,327	$ 107,323	16.8%	$ 304,007	$ 298,962	1.7%

** In the middle of the second quarter of 1997, one of the Company's major customers began having its products for the European market shipped directly to Europe rather than through the United States. The Company does not know the dollar amount of the corresponding shipments to Europe for the period from the beginning of the year to the middle of the second quarter of 1997. Therefore shipments to North America in 1997 are slightly overstated and shipments to Europe slightly understated for the nine month ended September 30, 1997. The

Company estimates that the actual increase for North America and Europe from the nine month period ended September 30, 1998 as compared to the nine month period ended September 30, 1997 amounted to approximately 13% and 2%, respectively. Consequently the above indicated increase and decrease percentage for the nine month periods ended September 30, 1998 compared to the nine month period ended 1997 should be read with caution.

Shipments to some of the Company's OEM partners are made to centralized purchasing and manufacturing locations which in turn sell through to foreign locations. As a result of these factors, the Company believes that sales of its products into Europe and Japan may actually be higher, though accurate data is difficult to obtain. The Company expects that international revenue will continue to represent a significant portion of its total revenue.

The unit volume for the entire Company has increased by 161.4% quarter over quarter and 91.9% nine month period over nine month period. The corresponding revenue increase has been tempered by the effect of price reductions on the Company's older product lines in 1998, as well as a shift in product mix to less expensive desktop units. The Company expects the shift in product mix to continue; however, this may be tempered somewhat as the new Fiery ZX stand alone server line begins to ship in larger volumes after its introduction in the third quarter of 1998.

Substantially all of the revenue of both periods was attributable to sales of products through the Company's OEM channels with such partners as Canon, Xerox, Ricoh, Minolta, Fuji Xerox, Konica, Oce, Epson, Sharp and others. During 1998, the Company has continued work on both increasing the number and expanding the size of existing relationships with OEM partners. For the three and nine month periods ended September 30, 1998, the Company continued to rely on three OEM customers, Canon, Xerox and Ricoh for 69.2 % and 70.2% of it's revenue for the respective periods, as compared to 85.3% and 85.5%, reported for the same periods of 1997. In the event that any of these OEM relationships are scaled back or discontinued, the Company may experience a significant negative impact on its consolidated financial position and results of operations. In addition, no assurance can be given that the Company's relationships with these OEM partners will continue. Further, the Company's historical results have followed a seasonal pattern reflecting the buying patterns of these large OEM customers. That historical pattern has indicated the Company's fiscal fourth quarter results may be adversely affected by a desire on the part of some or all of its' OEM customers to slow down, or otherwise delay fourth quarter orders in order to minimize their respective inventory investments at the end of their fiscal years.

On October 28, 1998 the Company announced that it has provided Hewlett Packard Company with embedded Fiery X2e technology for the new HP Color Laserjet 8500 Printer which is HP's first A3 Tabloid Color Laser Printer for the Department Market. Hewlett Packard is the market leader among computer printer manufacturers for the Desktop market. The 8500 project basically calls for the Company to provide chipsets and software to HP which, as the products begin to ship in volume, will have a lower per unit revenue impact but a much higher per unit margin impact as a percentage of revenues than the Company's traditional products have had on the Company's results from operations. The Company continues to work on the development of products utilizing the Fiery architecture and other products and intends to continue to introduce new generations of Fiery products and other new product lines in the remainder of 1998 and beyond. No assurance can be given that the introduction or market acceptance of new, current or future products will be successful.

Cost of Revenue

Historically, a majority of the Company's cost of revenue has been attributable to the sale of Fiery Color Servers. Fiery Color Servers as well as embedded desktop controllers and digital black and white products are manufactured by third-party manufacturers who purchase most of the necessary components. The Company sources directly processors, memory, certain ASICs, and software licensed from various sources, including PostScript interpreter software, which the Company licenses from Adobe Systems, Inc. The Company's gross margin was 43.0% and 43.5% for the three and nine month periods ended September 30, 1998, down from 55.0% and 54.9%, respectively, of the corresponding periods of 1997. This was due to a combination of factors, including a higher mix of low end products with relatively lower margins, including new embedded products and

black and white products, and a different mix of OEM partners purchasing a different mix of products during the three and nine month periods. The Company also initiated price reductions on older products as of January 1, 1998 in light of pending introductions of newer generations of products. The Company expects that sales of products with relatively lower margins may further increase as a percentage of revenue. Such products include older products for which prices are reduced during product transitions, embedded products for both desktop printers and copiers, and stand-alone and embedded controllers for black-and-white copiers. If such sales increase as a percentage of the Company's revenue, gross margins may further decline.

In general, the Company believes that gross margin will continue to be impacted by a variety of factors. These factors include the availability and pricing of key components (including DRAM and Postscript interpreter software), third party manufacturing costs, product, channel and geographic mix, the success of the Company's product transitions and new products, competition, and general economic conditions in the United States and abroad. Consequently, the Company anticipates gross margins will fluctuate from quarter to quarter.

Operating Expenses

Operating expenses for the three and nine month periods ended September 30, 1998 increased $8.8 million and $30.4 million or 36.4% and 45.2%, respectively, from the corresponding periods in 1997. Operating expenses in 1998 also constituted a higher percentage of revenues than in 1997, 26.3% versus 22.5% for the three month periods ended September 30 and 32.2% versus 22.5% for the nine month periods ended September 30. Increases in operating expenses in absolute dollars were primarily caused by costs associated with the development and introduction of new products during 1998 and the hiring of additional full time employees - a net increase of 72 people or 14.5% from September 30, 1997 to September 30, 1998. The Company has hired additional employees to support product development as well as to support expanded operations. The increase in operating expenses as a percentage of revenues resulted from increases in absolute costs. The Company anticipates that operating expenses will continue to grow and may increase both in absolute dollars and as a percentage of revenue. The components of operating expenses are detailed below.

Research and Development. Expenses for research and development consist primarily of personnel expenses and, to a lesser extent, consulting and nonrecurring engineering expenses, depreciation, and costs of prototype materials. Research and development expenses were $14.9 million and $43.1 million or 11.9% and 14.2% of revenues, respectively, for the three and nine month periods ended September 30, 1998, compared to $10.8 million and $28.1 million or 10.0% and 9.4% of revenue in the corresponding periods of 1997. Research and development expenses have increased primarily due to an increase in research and development projects, which has led to an increase in engineering headcount of 84.8% from September 30, 1997 to September 30, 1998. In addition, due to all of the new product development, the Company has experienced an increase in non-recurring engineering expenses for prototype development. The Company believes that the development of new products and enhancement of existing products is essential to its continued success, and management intends to continue to devote substantial resources to research and new product development. Accordingly, the Company expects that its research and development expenses may increase in absolute dollars and possibly also as a percentage of revenue.

Sales and Marketing. Such expenses include personnel expenses, costs for tradeshows, marketing programs and other promotional material, sales commissions, travel and entertainment expense, depreciation, and costs associated with sales offices in the United States, Europe and Japan and other locations around the world. Sales and marketing expenses were $14.0 million or 11.1% of revenue in the third quarter of 1998, compared to $10.5 million or 9.8% of revenue in the corresponding quarter of 1997. Sales and marketing expenses were $43.2 million or 14.2% of revenue for the nine month period ended 1998, compared to $30.6 million or 10.2% of revenue in the corresponding period of 1997. Sales and marketing expenses increased in absolute dollars and as a percentage of total revenue due primarily to a 42.4% increase in employee headcount since September 30, 1997. In addition, costs required for the introduction, promotion and support of a broader range of current products with both existing and new OEM relationships as well as technology alliance partners has increased. The Company expects that its sales and marketing expenses may

increase in absolute dollars and possibly also as a percentage of revenue as it continues to actively promote its products, launch new Fiery models and other products, and continue to build its worldwide sales and marketing organization.

General and Administrative. Such expenses consist primarily of personnel expenses and, to a lesser extent, professional fees, expenses required of a public company, and depreciation and facility costs. General and administrative expenses were $4.1 million or 3.3% of revenue for the three month period ended September 30, 1998, compared to $2.9 million or 2.7% of revenue in the corresponding period of 1997. General and administrative expenses were $11.5 million or 3.8% of revenue for the nine month period ended September 30, 1998, compared to $8.6 million or 2.9% of revenue in the corresponding period of 1997. The increases were primarily due to increased headcount as well as other operating expenses, including the use of outside consultants for legal and other matters. The Company expects that its general and administrative expenses may increase in absolute dollars and possibly also as a percentage of revenue in order to support the Company's efforts to grow its business. In addition, the Company anticipates certain non recurring general and administrative expenses beginning in the fourth fiscal quarter, and possibly for one to two quarters thereafter, related to the Company's pending move to a new central facility in Foster City, California.

Other income

Other income relates mainly to interest income and expense and gains and losses on foreign currency transactions. Other income decreased by $0.1 million or 4.1% to $2.4 million and by $1.6 million or 19.9% to $6.2 million, in the three and nine month periods ended September 30, 1998, compared to $2.5 million and $7.8 million in the corresponding periods ended September 30, 1997. The decrease for the nine month period was due in part to $1.3 million in losses suffered on Asian currency denominated transactions. Although to date the Company's exposure to currency fluctuations has been relatively minor, in response to recent currency fluctuations in Asia the Company began to implement a hedging program in June 1998. In addition, the Company has been earning less on interest in 1998 compared to 1997 due to a decline in market interest rates.

Income Taxes

The Company's effective tax rate was 32.1% for the nine month period ended September 30, 1998 compared to 36.0% for the corresponding period in 1997. The decrease in the effective tax rate was primarily the result of lower expected taxable income in fiscal 1998 as compared to fiscal 1997, primarily the result of lower expected taxable income in fiscal 1998 relative to non taxable income and tax credits as compared to the mix of taxable income and non-taxable income and credits in 1997. The effective tax rate of 32.1% for fiscal 1998 also assumed that the R&D tax credit would only be available for the first 6 months of the year. In the fourth quarter of fiscal 1998 the US Congress announced that the credit would be extended for all of fiscal 1998. Accordingly the Company may adjust the fourth quarter effective tax rate to reflect this change.

Liquidity and Capital Resources

Cash, cash equivalents and short-term investments increased by $36.8 million to $279.5 million as of September 30, 1998 compared to $242.7 million as of December 31, 1997. The Company has an investment portfolio of short-term investments comprised of fixed income securities that are classified as "held to maturity securities". These securities, like all fixed income instruments, are subject to interest rate risk and will fall in value if market interest rates increase. The Company attempts to limit this exposure by investing primarily in short-term securities.

Net cash provided by operating activities decreased to $44.9 million for the nine month period ended September 30, 1998 compared to $65.2 million for the corresponding period ended September 30, 1997. The $20.3 million decrease was mainly the result of a $39.3 million decrease in net income offset by changes in other operating assets and liabilities. The Company purchased approximately $8.6

million of capital equipment and furniture during the nine month period ended September 30, 1998 compared to purchases of $30.2 million in the corresponding period of 1997. Capital equipment and furniture spending decreased significantly, as the Company purchased land for its new corporate campus in Foster City, California for $20.2 million in cash and the assumption of $4.5 million in bonds payable during the third quarter in 1997. Cash provided by the exercise of options amounted to $0.7 million for the nine month period ended September 30, 1998, a $7.9 million decrease over the corresponding period in 1997. The decrease was due to a lower volume of option exercises due to the lower relative market prices available for the stock in fiscal 1998.

The Company believes that its existing capital resources together with cash generated from continuing operations will be sufficient to fund its operations and meet capital requirements through at least 1999.

Year 2000 Status

Although the Company has not completed a formal, comprehensive MIS plan for potential Year 2000 related problems, Management has taken steps and continues to assess the possible effects and potential solutions for a Year 2000 problem. The Company has updated substantially all of it's computer system infrastructure over the last few years, thus management believes that all critical pieces of hardware and software have been represented by their manufacturers, and tested on a limited basis by EFI, to be Year 2000 compliant. In addition, based on the reviews completed to date, the Company has not spent and does not expect to spend material amounts on remediation of it's existing systems. Although the Company continues to review and test, based on informal reviews to date, the Company currently believes that Year 2000 issues will not materially affect its internal MIS systems.

Also, the Company has tested its products to determine if the products will successfully rollover from the years 1999 to 2000 and 2000 to 2001, and if the products will correctly recognize the date February 29, 2000. Products first released after November 1, 1997 have passed internal tests for these criteria, and future products will be required to pass the same internal tests before shipping. Because the Company cannot control other companies' products used in conjunction with the Company's products (such as other companies' software), the Company does not intend to assure its customers that its products will meet the above-referenced criteria when used in conjunction with any other software or hardware not manufactured by the Company.

To date, the Company has not reviewed Year 2000 plans and preparations of its manufacturers, suppliers, customers, and other third parties with whom it does business. The Company is currently in the process of identifying and contacting these critical third parties. The Company has begun to work on contingency plans and currently assumes that internal problems encountered in handling transactions could be processed manually for a short period of time. These contingency plans will be more fully developed by the 3rd quarter of 1999.

The Company continues to assess the effects and costs associated with possible Year 2000 problems; however, the total effects and costs are unknown to the Company at this time, and there can be no assurance that such effects and costs will not have a material adverse effect on the Company, its financial condition, or results of operations.

Factors That Could Adversely Affect Performance

The following factors may adversely impact the Company's future performance and financial results:

Reliance on OEM Resellers; Risks Associated with Significant OEM Group Concentration

The Company's strategy of selling principally to OEMs anticipates that the Company will be relying on high sales volumes to a relatively small number of customers. Although there can be no assurance that the Company's major customers will continue to utilize the Company's products at current levels, if at all, the Company expects to continue to depend upon such customers for a significant percentage of its revenues. A decline in demand for color copiers or color laser printers, or other factors affecting the computer industry in general, or major customers in particular, may adversely affect the Company's results of

operations.

The Company relies upon the ability of its OEMs to develop new products, applications and product enhancements on a timely and cost-effective basis. The ability of these OEMs to meet changing customer needs and respond to emerging industry standards and other technological changes is essential to the Company's continued success. There is no assurance that the Company's OEMs will effectively meet these technological challenges. These OEMs, who are not within the control of the Company, may incorporate into their products the technologies of other companies in addition to or instead of the Company's products, and with the exception of certain minimum purchase obligations, are not obligated to purchase products from the Company. There can be no assurance that any OEM will continue to carry the Company's products, and the loss of important OEMs, or an inability to recruit additional OEMs, may have a material adverse effect on the Company's business, operating results, and financial condition.

The Company's sales have been and will continue to be heavily influenced by order quantities and timing of delivery to its OEMs. No assurance can be given that the Company will be able to successfully maintain sales of its products in any OEM channel. The Company's sales may be adversely affected if an OEM introduces or supports additional products that compete with the Company's products, fails to effectively market the Company's products, modifies its color copiers or printers such that the Company's products are no longer compatible, introduces new color copiers or printers that are incompatible with the Company's products, or does not allow the Company's products to support all of the features available on its new copiers or printers.

Although the Company is pursuing, and will continue to pursue, the business of additional copier and printer OEMs, customer concentration will continue to be a risk due to the limited number of OEMs producing copiers and printers in sufficient volume to be attractive to the Company.

Product Transitions

Although the Company plans to introduce new products, delays in the launch or availability of these products could have an adverse effect on the Company's financial results. Product transitions also carry the risk that customers will delay or cancel orders for existing products. If the Company is not able to successfully manage product transitions or cannot guarantee the availability of products once they have been introduced, its results of operations may be adversely affected.

Product Diversification and Coordination of Development with Customers

The Company's customers have requested a broader range of products with different and unique features, and the Company believes that this trend may continue. If the Company cannot successfully manage the effort and risks associated with a broader range of products, its results of operations may be adversely affected.

The Company's customers work closely with the Company to develop products that are specific to each customer. Many of the products the Company is developing require the Company and its customers to coordinate development, quality testing, marketing and other tasks. The Company cannot control other companies' efforts, and such coordination may result in delays that the Company cannot manage by itself. If the Company cannot successfully manage the effort and risks associated with coordination, its results of operations may be adversely affected.

Reliance on Continued Demand for the Company's Products That Enable Color Printing of Digital Data and the effects of a Potential Decrease

Although the Company has expanded its product line in recent years, and continues to explore opportunities to further diversify its business, the Company's business has been focused heavily on sales of products that enable the color printing of digital data. Should conditions arise that reduce the demand for this service, the Company's results of operations may be adversely affected. The Company believes that purchases of the Company's products may be affected by a variety of economic conditions and considerations, and there can be no assurance that demand for the Company's products will continue at current levels. For example, although such conditions are difficult to predict, the

Company is not assuming that there will be significant improvement in economic conditions in Japan during the remainder of 1998. The Company believes that continued economic distress in Japan and elsewhere in Asia may limit demand in these regions for the Company's products. In addition, it is possible that individuals with responsibility for purchasing the Company's products, such as information technology professionals, may choose to devote available discretionary resources to other perceived needs, such as technology expenses associated with Year 2000 preparation and or Euro currency conversion projects.

New Product Introductions

The Company continues to explore opportunities to develop product lines distinct from its Fiery Color Servers. Such new products may require the investment of capital for the development of new distribution and marketing channels at an unknown cost to the Company. There can be no guarantee that the Company would be successful in the development of such channels or that any new products would gain market acceptance. If the Company is not able to successfully manage the introduction of new products, its results of operations may be adversely affected. In addition to these risks, if the Company is successful in introducing new products, there can be no assurance that such product introductions (including more powerful products sold at a lower price) will not adversely impact gross margins or sales of existing products.

Competition

The Company has seen competition in the market from companies and products that provide similar functionality to the Company's products and believes that such competition will continue and may intensify. It is also possible that the Company's customers may themselves internally develop and supply products presently sold by the Company. There can be no assurance that the Company will be able to continue to successfully compete against other companies' product offerings or their financial and other resources. In addition to competition among suppliers of the Company's products, the Company believes that competition among the Company's customers and potential customers, including competition over price, may increase. Such competition may have an adverse impact on the Company's results of operations.

Managing Growth

The Company continues to increase its headcount, and is working to build relationships with OEMs and other customers. As a result, the number and complexity of relationships the Company must manage, including relationships with customers, manufacturers, and suppliers, has increased and may increase further. If the Company cannot successfully manage growth, its results of operations may be adversely affected.

Hiring and Retention of Employees

The Company depends upon skilled employees, such as software and hardware engineers, quality assurance engineers, marketing and sales professionals, and persons in administrative and managerial positions. Demand for such employees in Northern California, where the Company's main offices are located, is high. To assure that the Company can adequately support its business, the Company undertakes a number of efforts to hire and retain qualified employees. If the Company cannot successfully hire and retain employees, its results of operations could be adversely affected.

Fluctuations in Operating Results

Operating results may fluctuate due to factors such as demand for the Company's products, success and timing of the new product introductions, price reductions by the Company and its competitors, delay, cancellation or rescheduling of orders, product performance, or availability of key components. Operating results may also fluctuate due to seasonal purchasing patterns of its OEM partners or the status of the Company's relationships with its OEM partners as well as to performance of third-party manufacturers or the status of the Company's relationships with its key suppliers. The Company's results have followed a seasonal pattern reflecting the buying patterns of its' large OEM customers. In the past that pattern has indicated the Company's fiscal fourth quarter results may be adversely affected by a desire on the part of some or all its' OEM customers to slow down, or otherwise delay fourth quarter orders in

order to minimize their inventory investment at the end of their fiscal year. Moreover, the Company's ability to develop and market new products, the timing and amount of sales and marketing expenditures, and the general demand for what is a discretionary purchase item - color copiers, digital black-and-white copiers, and color laser printers and general global economic conditions will also effect operating results.

Interest Rate risk

The Company has an investment portfolio of fixed income securities. These securities are subject to interest rate risk and will fall in value if market interest rates increase. The Company attempts to limit these exposures by investing primarily in short-term securities.

Limited Backlog

The Company typically does not obtain long-term volume purchase contracts from its customers, and a substantial portion of the Company's backlog is scheduled for delivery within 90 days or less. Customers may cancel orders and change volume levels or delivery times without penalty. Sales and operating results therefore depend on the volume and timing of the backlog as well as bookings received. Significant portions of the Company's operating expenses are fixed, and planned expenditures are based primarily on sales forecasts and product development programs. If sales do not meet the Company's expectations in any given period, the adverse impact on operating results may be magnified by the Company's inability to adjust operating expenses sufficiently or quickly enough to compensate for such a shortfall.

Volatility of Stock Price

Due to various factors, including those noted above, the Company's future earnings and stock price might be subject to significant volatility. Any shortfall in revenue or earnings from levels expected by securities analysts could have an immediate and significant adverse effect on the trading price of the Company's common stock in any given period. The Company participates in a highly dynamic industry, which often results in significant volatility for the Company's common stock price.

Risks Associated With The Company's Ownership of Real Property And Transition To New Facilities

In late 1998 or early 1999, the Company anticipates moving into new headquarters on land in Foster City, California that the Company owns. If the Company cannot successfully manage the transition, disruption to the Company's business and delays in sales could arise, and results of operations may be adversely affected.

International Operations and Currency Fluctuations

Approximately 48.9% and 51.6%, respectively, of the Company's product revenue for the three and nine month periods ended September 30, 1998, were attributable to international sales, primarily in Europe and Japan. The Company expects that international sales will continue to represent a significant portion of its total revenue. The Company is subject to certain risks associated with international operations, including tariff regulations and requirements for export licenses, particularly with respect to the export of certain technologies, which may on occasion be delayed or difficult to obtain. Given the significance of international sales to the Company, the Company faces a continuing risk in that the strengthening of the U.S. dollar versus the Japanese yen and major European currencies could adversely impact the Company's revenues and gross margin. Although the Company typically invoices in U.S. dollars, these adverse impacts could occur through lower unit demand and the necessity to lower average selling prices to compensate for the reduced strength of local currencies. Where the Company does invoice in local currency, the Company's cash flows and earnings are exposed to fluctuations in interest rates and foreign currency exchange rates. The Company attempts to limit these exposures through operational strategies and where appropriate the use of hedge oriented financial market instruments. To date the Company has primarily utilized forward contracts to mitigate its exposure in these markets.

Proprietary Information

The Company relies on a combination of copyright, patent and trade secret protection, nondisclosure agreements, and licensing and cross-licensing arrangements to establish and protect its proprietary rights. There can be no assurance that any patents that may be issued to the Company, or which the Company may license from third parties, or that any other proprietary rights of the Company will not be challenged, invalidated or circumvented, or that any rights granted thereunder would provide proprietary protection to the Company.

Infringement and Potential Litigation

The Company may receive in the future communications from third parties asserting that the Company's products infringe, or may infringe, the proprietary rights of third parties. There can be no assurance that any of these claims will not result in protracted and costly litigation. While it may be necessary or desirable in the future to obtain licenses relating to one or more of its products or relating to current or future technologies, there can be no assurance that the Company will be able to do so on commercially reasonable terms, or at all.

Reliance on Adobe Systems, Incorporated

Under the Company's license agreements with Adobe, a separate license must be granted from Adobe to the Company for each type of copier or printer used with a Fiery Server or Controller. To date, the Company has successfully obtained licenses to use Adobe's PostScript(TM) software for products that it offers. However, there can be no assurance that Adobe will continue to grant future licenses to Adobe PostScript(TM) software on reasonable terms, in a timely manner, or at all, or that Adobe will continue to give quality assurance approvals. Such actions by Adobe may adversely affect the Company's results of operations. If Adobe does not grant the Company such licenses or approvals, if the Adobe license agreements are terminated, or if the Company's relationship with Adobe is otherwise impaired, the Company's operations may be adversely affected.

PART II Other Information

ITEMS 1 - 5.

There is no applicable information to report under Part II, Items 1 - 5 during the period covered by this report.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 27.1 Financial Data Schedule............. Page 23

(b) Reports on Form 8-K

No reports on Form 8-K were filed by the Company during the three month period ended September 30, 1998.

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.

ELECTRONICS FOR IMAGING, INC.

Date: November 13, 1998

By /s/ Dan Avida

Dan Avida
President and Chief
Executive Officer

By /s/ Eric Saltzman

Eric Saltzman
Chief Financial Officer

<ARTICLE> 5
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This schedule contains summary financial information extracted from the condensed balance sheet, condensed statement of operations and condensed statement of cash flows included in the Company's form 10-Q for the nine month period ended September 30, 1998 and is qualified in its entirety by reference to such financial statements and notes thereto.
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