

AVID TECHNOLOGY, INC.  
Form 10-Q  
October 20, 2014

---

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-21174

Avid Technology, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of

Incorporation or Organization)

04-2977748

(I.R.S. Employer

Identification No.)

75 Network Drive

Burlington, Massachusetts 01803

(Address of Principal Executive Offices, Including Zip Code)

(978) 640-6789

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) 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) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Non-accelerated Filer

(Do not check if smaller reporting company)

Accelerated Filer

Smaller Reporting Company

Edgar Filing: AVID TECHNOLOGY, INC. - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
" No

The number of shares outstanding of the registrant's Common Stock as of October 15, 2014 was 39,162,905.

---

AVID TECHNOLOGY, INC.  
 FORM 10-Q  
 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	
<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2014 and 2013</u>	<u>1</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2014 and 2013</u>	<u>2</u>
<u>Condensed Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013</u>	<u>4</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>5</u>
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>14</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>24</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>25</u>
<u>PART II. OTHER INFORMATION</u>	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>27</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>27</u>
<u>ITEM 6. EXHIBITS</u>	<u>28</u>
<u>SIGNATURE</u>	<u>29</u>
<u>INDEX TO EXHIBITS</u>	<u>30</u>

This Quarterly Report on Form 10-Q (the “Form 10-Q”) includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For this purpose, any statements contained in this Form 10-Q that relate to future results or events are forward-looking statements. Forward-looking statements may be identified by use of forward-looking words, such as “anticipate,” “believe,” “confidence,” “could,” “estimate,” “expect,” “feel,” “intend,” “may,” “should,” “seek,” “will” and “would,” or similar expressions.

Forward-looking statements may involve subjects relating to the following:

- our ability to mitigate and remediate effectively the material weaknesses in our internal controls over financial reporting;
- the development, marketing and selling of new products and services;
- our ability to successfully implement our Avid Everywhere strategic plan;
- anticipated trends relating to our sales, financial condition or results of operations;
- our goal of expanding our market positions;
- our capital resources and the adequacy thereof;
- the anticipated trends and development of our markets and the success of our products in these markets;
- our plans regarding the relisting of our common stock on The NASDAQ Stock Market, or NASDAQ, and the liquidity of our stock;
- the risk of restatement of our financial statements;
- the anticipated performance of our products;
- our business strategies and market positioning;
- the impact, costs and expenses of any litigation and government inquiries we may be subject to now or in the future;
- the effect of the continuing worldwide macroeconomic uncertainty on our business and results of operation;
- estimated asset and liability values and amortization of our intangible assets;
- our compliance with covenants contained in our indebtedness;
- changes in inventory levels;
- seasonal factors;
- plans regarding repatriation of foreign earnings;
- transactions in and valuations of investments and derivative instruments; and
- fluctuations in foreign exchange and interest rates.

Actual results and events in future periods may differ materially from those expressed or implied by forward-looking statements in this report. There are a number of factors that could cause actual events or results to differ materially from those indicated or implied by forward-looking statements, many of which are beyond our control, including the risk factors discussed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013. In addition, the forward-looking statements contained in this Form 10-Q represent our estimates only as of the date of this filing and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, whether to reflect actual results, changes in assumptions, changes in other factors affecting such forward-looking statements or otherwise.

We own or have rights to trademarks and service marks that we use in connection with the operation of our business. Avid is a trademark of Avid Technology, Inc. Other trademarks, logos, and slogans registered or used by us and our subsidiaries in the United States and other countries include, but are not limited to, the following: Avid Everywhere, Avid Motion Graphics, AirSpeed, EUCON, Fast Track, iNEWS, Interplay, ISIS, Avid MediaCentral, Mbox, Media Composer, NewsCutter, Nitris, Pro Tools, Sibelius and Symphony. Other trademarks appearing in this Form 10-Q are the property of their respective owners.

## PART I - FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## AVID TECHNOLOGY, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share data, unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net revenues:				
Products	\$87,315	\$99,858	\$181,885	\$198,576
Services	37,329	41,487	77,741	78,840
Total net revenues	124,644	141,345	259,626	277,416
Cost of revenues:				
Products	35,097	38,902	70,091	75,917
Services	15,323	15,392	30,994	30,668
Amortization of intangible assets	—	501	50	1,152
Total cost of revenues	50,420	54,795	101,135	107,737
Gross profit	74,224	86,550	158,491	169,679
Operating expenses:				
Research and development	22,070	23,847	45,024	47,454
Marketing and selling	34,297	33,903	67,112	67,812
General and administrative	19,984	16,131	38,315	31,728
Amortization of intangible assets	398	658	878	1,321
Restructuring (recoveries) costs, net	(165)	) 1,918	(165)	) 2,191
Total operating expenses	76,584	76,457	151,164	150,506
Operating (loss) income	(2,360)	) 10,093	7,327	19,173
Interest income	50	122	70	195
Interest expense	(415)	) (374)	) (788)	) (709)
Other income, net	8	5	10	9
(Loss) income before income taxes	(2,717)	) 9,846	6,619	18,668
Provision for income taxes, net	622	669	1,062	1,226
Net (loss) income	\$(3,339)	) \$9,177	\$5,557	\$17,442
Net (loss) income per common share – basic	\$(0.09)	) \$0.24	\$0.14	\$0.45
Net (loss) income per common share – diluted	\$(0.09)	) \$0.23	\$0.14	\$0.45
Weighted-average common shares outstanding – basic	39,119	39,040	39,109	39,009
Weighted-average common shares outstanding – diluted	39,119	39,069	39,138	39,061

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

AVID TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net (loss) income	\$(3,339	) \$9,177	\$5,557	\$17,442
Other comprehensive income (loss):				
Foreign currency translation adjustments	743	(1,095	) 1,136	(3,706
		)		)
Comprehensive (loss) income	\$(2,596	) \$8,082	\$6,693	\$13,736

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

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

	June 30, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$23,049	\$ 48,203
Accounts receivable, net of allowances of \$11,330 and \$13,963 at June 30, 2014 and December 31, 2013, respectively	49,263	56,770
Inventories	54,698	60,122
Deferred tax assets, net	532	522
Prepaid expenses	8,296	7,778
Other current assets	14,796	17,493
Total current assets	150,634	190,888
Property and equipment, net	33,270	35,186
Intangible assets, net	3,232	4,260
Long-term deferred tax assets, net	2,431	2,415
Other long-term assets	2,360	2,393
Total assets	\$191,927	\$ 235,142
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$28,335	\$ 33,990
Accrued compensation and benefits	26,416	30,342
Accrued expenses and other current liabilities	30,883	41,273
Income taxes payable	6,228	6,875
Short-term debt	5,000	—
Deferred tax liabilities, net	—	14
Deferred revenues	204,291	211,403
Total current liabilities	301,153	323,897
Long-term deferred tax liabilities, net	562	565
Long-term deferred revenues	225,660	255,429
Other long-term liabilities	13,937	14,586
Total liabilities	541,312	594,477
Contingencies (Note 8)		
Stockholders' deficit:		
Common stock	423	423
Additional paid-in capital	1,045,777	1,043,384
Accumulated deficit	(1,330,969 )	(1,336,526 )
Treasury stock at cost	(71,679 )	(72,543 )
Accumulated other comprehensive income	7,063	5,927
Total stockholders' deficit	(349,385 )	(359,335 )
Total liabilities and stockholders' deficit	\$191,927	\$ 235,142

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





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

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$5,557	\$17,442
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	9,352	11,800
(Recovery) expense from doubtful accounts	(158	) 30
Gain on sales of assets	—	(125
Stock-based compensation expense	3,398	4,185
Non-cash interest expense	147	147
Foreign currency transaction losses	(317	) (84
(Benefit from) provision for deferred taxes	(16	) 9
Changes in operating assets and liabilities:		
Accounts receivable	7,668	12,277
Inventories	5,424	5,896
Prepaid expenses and other current assets	833	1,225
Accounts payable	(5,666	) (6,661
Accrued expenses, compensation and benefits and other liabilities	(14,842	) (6,516
Income taxes payable	(583	) (680
Deferred revenues	(36,879	) (44,501
Net cash used in operating activities	(26,082	) (5,556
Cash flows from investing activities:		
Purchases of property and equipment	(6,391	) (5,290
Proceeds from divestiture of consumer business	1,500	—
Proceeds from sale of assets	—	125
Decrease (increase) in other long-term assets	11	(18
Net cash used in investing activities	(4,880	) (5,183
Cash flows from financing activities:		
Proceeds from the issuance of common stock under employee stock plans	1	177
Common stock repurchases for tax withholdings for net settlement of equity awards	(141	) (232
Proceeds from revolving credit facilities	11,500	—
Payments on revolving credit facilities	(6,500	) —
Net cash provided by (used in) financing activities	4,860	(55
Effect of exchange rate changes on cash and cash equivalents	948	(3,492
Net decrease in cash and cash equivalents	(25,154	) (14,286
Cash and cash equivalents at beginning of period	48,203	70,390
Cash and cash equivalents at end of period	\$23,049	\$56,104
Supplemental information:		
Cash paid for income taxes, net of refunds	\$1,294	\$893
Cash paid for interest	641	562

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

4

---

AVID TECHNOLOGY, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 reflect all normal and recurring adjustments necessary for their fair statement. Interim results are not necessarily indicative of results expected for any other interim period or a full year. The accompanying unaudited condensed consolidated 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, comprehensive income, financial position and cash flows of the Company in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The accompanying condensed consolidated balance sheet as of December 31, 2013 was derived from the Company’s audited consolidated financial statements and does not include all disclosures required by U.S. GAAP for annual financial statements. The Company filed audited consolidated financial statements as of and for the year ended December 31, 2013 in its 2013 Annual Report on Form 10-K, which included all information and footnotes necessary for such presentation. The financial statements contained in this Form 10-Q should be read in conjunction with the audited consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2013.

The Company’s preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from the Company’s estimates.

The Company has generally funded operations in recent years through the use of existing cash balances and cash flows from operations, which have been supplemented from time to time with borrowings under credit facilities. At June 30, 2014, the Company’s principal sources of liquidity included cash and cash equivalents totaling \$23.0 million and available borrowings under the Company’s credit facilities, which are discussed in Note 11. Cash used in operating activities aggregated \$26.1 million for the six months ended June 30, 2014. More than half of the cash usage during the six months ended June 30, 2014 was attributable to costs associated with restatement-related activities, and the remaining balance was attributable to payments of incentive-based compensation and, to a lesser extent, restructuring activities. The use of cash associated with the restatement and restructuring activities is expected to materially abate by the end of 2014, and the Company does not anticipate any further significant payments related to incentive-based compensation for the balance of 2014.

The Company’s cash requirements vary depending on factors such as the growth of the business, changes in working capital, capital expenditures, acquisitions of businesses or technologies and obligations under restructuring programs. Management expects to operate the business and execute its strategic initiatives principally with funds generated from operations and the Company’s external sources of liquidity under the credit facilities. Management anticipates that the Company will have sufficient internal and external sources of liquidity to fund operations and anticipated working capital and other expected cash needs for at least the next twelve months as well as for the foreseeable future.

Subsequent Events

The Company evaluated subsequent events through the date of issuance of these financial statements and, except for the subsequent events disclosed in Note 11, no other subsequent events required recognition or disclosure in these

financial statements.

#### Recent Accounting Pronouncements To Be Adopted

On May 28, 2014, the Financial Accounting Standards Board (the “FASB”) and the International Accounting Standards Board (the “IASB”) issued substantially converged final standards on revenue recognition. The FASB's Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), was issued in three parts: (a) Section A, “Summary and Amendments That Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs-Contracts with Customers (Subtopic 340-40),” (b) Section B, “Conforming Amendments to Other Topics and Subtopics in the Codification and Status Tables” and (c) Section C, “Background Information and Basis for Conclusions.” The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance.

5

---

The new revenue recognition guidance becomes effective for the Company on January 1, 2017, and early adoption is not permitted. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance in the ASU. The Company has not yet selected a transition method and is evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

## 2. NET (LOSS) INCOME PER SHARE

Net income per common share is presented for both basic income per share (“Basic EPS”) and diluted income per share (“Diluted EPS”). Basic EPS is based on the weighted-average number of common shares outstanding during the period. Diluted EPS is based on the weighted-average number of common shares and potential common shares outstanding during the period.

The following table sets forth (in thousands) potential common shares, on a weighted-average basis, that were considered anti-dilutive securities and excluded from the diluted earnings per share calculations for the relevant periods either because the sum of the exercise price per share and the unrecognized compensation cost per share was greater than the average market price of the Company’s common stock for the relevant period, or because they were considered contingently issuable. The contingently issuable potential common shares result from certain stock options and restricted stock units granted to the Company’s executive officers that vest based on performance conditions, market conditions, or a combination of performance or market conditions.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Options	4,798	5,386	4,677	5,495
Non-vested restricted stock units	65	360	98	407
Anti-dilutive potential common shares	4,863	5,746	4,775	5,902

## 3. FOREIGN CURRENCY CONTRACTS

As a hedge against the foreign exchange exposure of certain forecasted receivables, payables and cash balances of foreign subsidiaries, the Company enters into short-term foreign currency forward contracts. The changes in fair value of the foreign currency forward contracts intended to offset foreign currency exchange risk on cash flows associated with net monetary assets are recorded as gains or losses in the Company’s statement of operations in the period of change, because these contracts have not been accounted for as hedges. At June 30, 2014 and December 31, 2013, the Company had foreign currency forward contracts outstanding with aggregate notional values of \$35.1 million and \$21.0 million, respectively, as hedges against such forecasted foreign-currency-denominated receivables, payables and cash balances. These forward contracts typically mature within 30 days of execution.

The Company may also enter into short-term foreign currency spot and forward contracts as a hedge against the foreign currency exchange risk associated with certain of its net monetary assets denominated in foreign currencies. At June 30, 2014 and December 31, 2013, the Company had such foreign currency contracts with aggregate notional values of \$4.4 million and \$5.4 million, respectively. The fair values of these foreign currency contracts are also recorded as gains or losses in the Company’s statement of operations in the period of change.

The following table sets forth the balance sheet classification and fair values of the Company's foreign currency contracts at June 30, 2014 and December 31, 2013 (in thousands):

Derivatives Not Designated as Hedging Instruments under Accounting Standard Codification ("ASC") Topic 815	Balance Sheet Classification	Fair Value at June 30, 2014	Fair Value at December 31, 2013
Financial assets:			
Foreign currency contracts	Other current assets	\$186	\$59
Financial liabilities:			
Foreign currency contracts	Accrued expenses and other current liabilities	\$38	\$228

The following table sets forth the net foreign exchange gains (losses) included in the table below recorded as marketing and selling expenses in the Company's statements of operations during the three and six months ended June 30, 2014 and 2013 that resulted from the gains and losses on Company's foreign currency contracts not designated as hedging instruments and the revaluation of the related hedged items (in thousands):

Derivatives Not Designated as Hedging Instruments under ASC Topic 815	Net (Loss) Gain Recorded in Marketing and Selling Expenses			
	Three Months Ended June 30, 2014		Six Months Ended June 30, 2013	
Foreign currency contracts and revaluation of hedged items, net	\$(342)	\$127	\$(1,250)	\$392

See Note 4 for additional information on the fair value measurements for all financial assets and liabilities, including derivative assets and derivative liabilities, that are measured at fair value on a recurring basis.

#### 4. FAIR VALUE MEASUREMENTS

##### Assets and Liabilities Measured at Fair Value on a Recurring Basis

On a recurring basis, the Company measures certain financial assets and liabilities at fair value, including foreign-currency contracts, cash equivalents, marketable securities and insurance contracts held in deferred compensation plans. At June 30, 2014 and December 31, 2013, all of the Company's financial assets and liabilities were classified as either Level 1 or Level 2 in the fair value hierarchy. Assets valued using quoted market prices in active markets and classified as Level 1 are certain deferred compensation investments, primarily money market and mutual funds. Assets and liabilities valued based on other observable inputs and classified as Level 2 are foreign currency contracts and certain deferred compensation investments.

The following tables summarize the Company's classification of the assets and liabilities within the fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis at June 30, 2014 and December 31, 2013 (in thousands):

June 30, 2014	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for Identical	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Edgar Filing: AVID TECHNOLOGY, INC. - Form 10-Q

		Assets (Level 1)		
Financial assets:				
Deferred compensation assets	\$ 1,920	\$ 1,248	\$ 672	\$—
Foreign currency contracts	186	—	186	—
Financial liabilities:				
Foreign currency contracts	\$ 38	\$—	\$ 38	\$—

7

---

	December 31, 2013	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Deferred compensation assets	\$ 1,920	\$ 1,271	\$ 649	\$—
Foreign currency contracts	59	—	59	—
Financial liabilities:				
Foreign currency contracts	\$ 228	\$—	\$ 228	\$—

## 5. INVENTORIES

Inventories consisted of the following at June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013
Raw materials	\$ 10,064	\$ 10,142
Work in process	243	338
Finished goods	44,391	49,642
Total	\$ 54,698	\$ 60,122

At June 30, 2014 and December 31, 2013, finished goods inventory included \$3.6 million and \$3.6 million, respectively, associated with products shipped to customers and deferred labor costs for arrangements where revenue recognition had not yet commenced.

## 6. INTANGIBLE ASSETS

Amortizing identifiable intangible assets related to the Company's acquisitions or capitalized costs of internally developed or externally purchased software that form the basis for the Company's products consisted of the following at June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014			December 31, 2013		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Completed technologies and patents	\$ 52,660	\$ (52,660 )	\$—	\$ 52,711	\$ (52,659 )	\$ 52
Customer relationships	49,599	(46,407 )	3,192	49,627	(45,557 )	4,070
Trade names	5,973	(5,973 )	—	5,976	(5,976 )	—
Capitalized software costs	5,943	(5,903 )	40	5,944	(5,806 )	138
Total	\$ 114,175	\$ (110,943 )	\$ 3,232	\$ 114,258	\$ (109,998 )	\$ 4,260

Amortization expense related to all intangible assets in the aggregate was \$0.4 million and \$1.2 million, respectively, for the three months June 30, 2014 and 2013 and \$1.0 million and \$2.7 million, respectively, for the six months ended June 30, 2014 and 2013. The Company expects amortization of acquired intangible assets to be approximately \$0.8 million for the remainder of 2014, \$1.5 million in 2015 and \$1.0 million in 2016.





## 7. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consisted of the following at June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013
Long-term deferred rent	\$8,250	\$ 8,361
Long-term accrued restructuring	1,762	2,335
Long-term deferred compensation	3,925	3,890
Total	\$13,937	\$ 14,586

## 8. CONTINGENCIES

In March 2013 and May 2013, two purported securities class action lawsuits were filed against the Company and certain of its former executive officers seeking unspecified damages in the U.S. District Court for the District of Massachusetts. In July 2013, the two cases were consolidated and the original plaintiffs agreed to act as co-plaintiffs in the consolidated case. In September 2013, the co-plaintiffs filed a consolidated amended complaint on behalf of those who purchased the Company's common stock between October 23, 2008 and March 20, 2013. The consolidated amended complaint, which named the Company, certain of its current and former executive officers and its former independent accounting firm as defendants, purported to state a claim for violation of federal securities laws as a result of alleged violations of the federal securities laws pursuant to Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. In October 2013, the Company filed a motion to dismiss the consolidated amended complaint, resulting in the dismissal of some of the claims, and the dismissal of Mr. Hernandez and one of the two plaintiffs from the case. The matter is scheduled for trial in March 2015. At this time, the Company believes that a loss related to the consolidated complaint is neither probable nor remote, and based on the information currently available regarding the claims in the consolidated complaint, the Company is unable to determine an estimate, or range of estimates, of potential losses.

In June 2013, a purported stockholder of the Company filed a derivative complaint against the Company as nominal defendant and certain of the Company's current and former directors and officers. The complaints alleged various violations of state law, including breaches of fiduciary duties, waste of corporate assets and unjust enrichment. The derivative complaint sought, inter alia, unspecified monetary judgment, equitable and/or injunctive relief, restitution, disgorgement and a variety of purported corporate governance reforms. On October 30, 2013, the complaint was dismissed without prejudice. On November 26, 2013, the Company's Board of Directors received a letter from the plaintiff in the dismissed derivative suit, demanding that the Company's Board of Directors investigate, address and commence proceedings against certain of the Company's directors, officers, employees and agents based on conduct identified in the dismissed complaint. In December 2013, the Company's Board created a committee to conduct an investigation into the allegations in the demand letter. At this time, the Company believes that a loss related to the demand letter is neither probable nor remote, and based on the information currently available regarding the claims in the demand letter, the Company is unable to determine an estimate, or range of estimates, of potential losses.

In April and May 2013, the Company received a document preservation request and inquiry from the Division of Enforcement of the Securities and Exchange Commission and a federal grand jury subpoena from the Department of Justice requesting certain documents, including in particular documents related to the Company's disclosures regarding its accounting review and financial transactions. The Company has produced documents responsive to such requests and has provided regular updates to the authorities on its accounting evaluation. The Company intends to continue to cooperate fully with the authorities. At this time, the Company believes that a loss related to the inquiries is neither probable nor remote, and based on the information currently available regarding these inquiries, the Company is unable to determine an estimate, or range of estimates, of potential losses.

At June 30, 2014, the Company was subject to various litigations claiming patent infringement by the Company. Some of these legal proceedings may include speculative claims for substantial or indeterminate amounts of damages. If any infringement is determined to exist, the Company may seek licenses or settlements. In addition, as a normal incidence of the nature of the Company's business, various claims, charges and litigation have been asserted or commenced from time to time against the Company arising from or related to contractual, employee relations, intellectual property rights, product or service performance, or other matters.

The Company considers all claims on a quarterly basis and based on known facts assesses whether potential losses are considered reasonably possible, probable and estimable. Based upon this assessment, the Company then evaluates disclosure requirements and whether to accrue for such claims in its consolidated financial statements.

The Company records a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case.

At June 30, 2014, and as of the date of filing of these consolidated financial statements, the Company believes that, other than as set forth in this note, no provision for liability nor disclosure is required related to any claims because: (a) there is no reasonable possibility that a loss exceeding amounts already recognized (if any) may be incurred with respect to such claim; (b) a reasonably possible loss or range of loss cannot be estimated; or (c) such estimate is immaterial.

Additionally, the Company provides indemnification to certain customers for losses incurred in connection with intellectual property infringement claims brought by third parties with respect to the Company's products. These indemnification provisions generally offer perpetual coverage for infringement claims based upon the products covered by the agreement and the maximum potential amount of future payments the Company could be required to make under these indemnification provisions is theoretically unlimited. To date, the Company has not incurred material costs related to these indemnification provisions; accordingly, the Company believes the estimated fair value of these indemnification provisions is immaterial. Further, certain of the Company's arrangements with customers include clauses whereby the Company may be subject to penalties for failure to meet certain performance obligations; however, the Company has not recorded any related material penalties to date.

The Company has letters of credit at a bank that are used as security deposits in connection with the Company's Burlington, Massachusetts office space. In the event of default on the underlying leases, the landlords would, at June 30, 2014, be eligible to draw against the letters of credit to a maximum of \$2.6 million in the aggregate. The letters of credit are subject to aggregate reductions provided the Company is not in default under the underlying leases and meets certain financial performance conditions. In no case will the letters of credit amounts be reduced to below \$1.2 million in the aggregate throughout the lease periods, all of which extend to May 2020.

The Company also has a standby letter of credit at a bank that is used as a security deposit in connection with the Company's Daly City, California office space lease. In the event of default on this lease, the landlord would, at June 30, 2014, be eligible to draw against this letter of credit to a maximum of \$0.8 million. The letter of credit remains in effect at this amount throughout the remaining lease period, which extends to September 2014. The Company is not renewing this lease at the end of the term and expects the letter of credit to be released at that time.

The Company has letters of credit totaling approximately \$1.5 million that support its ongoing operations. These letters of credit have various terms and expire during 2014 and 2015. Some of the letters of credit may automatically renew based on the terms of the underlying agreements.

The Company provides warranties on externally sourced and internally developed hardware. For internally developed hardware and in cases where the warranty granted to customers for externally sourced hardware is greater than that provided by the manufacturer, the Company records an accrual for the related liability based on historical trends and actual material and labor costs. The following table sets forth the activity in the product warranty accrual account for the six months ended June 30, 2014 and 2013 (in thousands):

Six Months Ended June 30,	
2014	2013

Edgar Filing: AVID TECHNOLOGY, INC. - Form 10-Q

Accrual balance at beginning of year	\$3,501	\$4,476
Accruals for product warranties	2,778	1,531
Costs of warranty claims	(2,738	) (2,317
Accrual balance at end of period	\$3,541	\$3,690

The total warranty accrual of \$3.5 million is included in the caption “accrued expenses and other current liabilities” in the Company’s consolidated balance sheet at June 30, 2014.

## 9. RESTRUCTURING COSTS AND ACCRUALS

### 2013 Restructuring Plans

In June 2013, the Company's leadership evaluated the marketing and selling teams and, in an effort to better align sales resources with the Company's strategic goals and enhance its global account team approach, eliminated 31 positions. As a result, the Company recognized related restructuring costs of \$1.7 million in 2013.

During November and December 2013, the Company's executive management team identified opportunities to lower costs in the supply and hardware technology group by eliminating 29 positions in hardware shared services and 15 positions in the supply and technology group. Additionally, an engineering reorganization at the same time resulted in the elimination of four engineering positions. As a result, the Company recognized \$1.7 million of related restructuring costs in 2013.

### Prior Year Restructuring Plans

During the first six months of 2013, the Company recorded revisions totaling \$1.0 million, primarily resulting from sublease assumption changes related to the abandonment of facilities under the 2008, 2010 and 2012 Restructuring Plans.

In June 2014, the Company signed an agreement for surrender of the partially abandoned property at Pinewood, UK. As a result, the Company recorded a recovery of \$0.2 million, as the Company was released from all obligations related to the surrendered property.

The remaining accrual balance of \$3.7 million at June 30, 2014 was mainly related to the closure of part of the Company's Mountain View and Daly City, California, and Dublin, Ireland facilities under 2008, 2010 and 2012 restructuring plans. No further restructuring actions are anticipated under these plans.

### Restructuring Summary

The following table sets forth the activity in the restructuring accruals for the six months ended June 30, 2014 (in thousands):

	Employee- Related	Facilities/ Other- Related	Total
Accrual balance at December 31, 2013	\$ 2,399	\$ 6,102	\$ 8,501
Revisions of estimated liabilities	—	(165 )	(165 )
Accretion	—	344	344
Cash payments	(2,202 )	(2,609 )	(4,811 )
Foreign exchange impact on ending balance	1	(6 )	(5 )
Accrual balance at June 30, 2014	\$ 198	\$ 3,666	\$ 3,864

The employee-related accruals at June 30, 2014 represent severance and outplacement costs to former employees that will be paid out within the next twelve months and are, therefore, included in the caption "accrued expenses and other current liabilities" in the Company's condensed consolidated balance sheet at June 30, 2014.

The facilities/other-related accruals at June 30, 2014 represent contractual lease payments, net of estimated sublease income, on space vacated as part of the Company's restructuring actions. The leases, and payments against the amounts accrued, extend through 2021 unless the Company is able to negotiate earlier terminations. Of the total

facilities-related accruals, \$1.9 million is included in the caption “accrued expenses and other current liabilities” and \$1.8 million is included in the caption “other long-term liabilities” in the Company’s condensed consolidated balance sheet at June 30, 2014.

## 10. SEGMENT INFORMATION

The Company's evaluation of the discrete financial information that is regularly reviewed by the chief operating decision makers, which include the Company's chief executive officer and chief financial officer, has determined that the Company has one reportable segment. The following table is a summary of the Company's revenues by type for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Video products and solutions net revenues	\$55,496	\$58,062	\$115,574	\$116,886
Audio products and solutions net revenues	31,819	41,796	66,311	81,690
Products and solutions net revenues	87,315	99,858	181,885	198,576
Services net revenues	37,329	41,487	77,741	78,840
Total net revenues	\$124,644	\$141,345	\$259,626	\$277,416

The following table sets forth the Company's revenues by geographic region for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
United States	\$44,653	\$56,110	\$89,732	\$106,925
Other Americas	10,131	11,733	24,610	24,836
Europe, Middle East and Africa	54,098	52,230	109,522	103,501
Asia-Pacific	15,762	21,272	35,762	42,154
Total net revenues	\$124,644	\$141,345	\$259,626	\$277,416

## 11. CREDIT AGREEMENT

On October 1, 2010, Avid Technology, Inc. and certain of its subsidiaries (the "Borrowers") entered into a Credit Agreement with Wells Fargo Capital Finance LLC ("Wells Fargo"), which established two revolving credit facilities with combined maximum availability of up to \$60 million for borrowings and letter of credit guarantees (the "Credit Agreement"). The actual amount of credit available to the Borrowers varies depending upon changes in the level of the respective accounts receivable and inventory, and is subject to other terms and conditions that are more specifically described in the Credit Agreement. On August 29, 2014, the Company entered into an amendment to its Credit Agreement with Wells Fargo that extended the maturity date for the credit facilities from October 1, 2014 to October 1, 2015.

The amended Credit Agreement contains customary representations and warranties, covenants, mandatory prepayments, and events of default under which the Borrowers' payment obligations may be accelerated, including guarantees and liens on substantially all of the Borrowers' assets to secure their obligations under the Credit Agreement. The Credit Agreement prohibits the Company from declaring or paying any cash dividends. The Credit Agreement requires that Avid Technology, Inc. ("Avid Technology") maintain liquidity (comprised of unused availability under its portion of the credit facilities plus certain unrestricted cash and cash equivalents) of \$10.0 million, at least \$5.0 million of which must be from unused availability under its portion of the credit facilities. The Amendment further limits the Company's ability to access borrowings under the credit facilities if EBITDA (as defined in the Amendment) of \$33.8 million is not achieved for the year ending December 31, 2014, or capital expenditures (as defined in the Amendment) exceed \$16.0 million for the year ending December 31, 2014. In



addition, its subsidiary, Avid Technology International B.V. (“Avid Europe”), is required to maintain liquidity (comprised of unused availability under Avid Europe’s portion of the credit facilities plus certain unrestricted cash and cash equivalents) of \$5.0 million, at least \$2.5 million of which must be from unused availability under Avid Europe’s portion of the credit facilities. Interest accrues on outstanding borrowings under the credit facilities at a rate of either LIBOR plus 2.75% or a base rate (as defined in the Credit Agreement) plus 1.75%, at the option of Avid Technology or Avid Europe, as applicable. The Borrowers must also pay Wells Fargo a monthly unused line fee at a rate of 0.625% per annum.

At June 30, 2014, Avid Technology and Avid Europe had certain reserves and letters of credit guaranteed under the credit facilities of \$4.0 million and \$1.0 million, respectively, and available borrowings under the credit facilities of approximately \$12.0 million and \$12.6 million, respectively, after taking into consideration the reserves, outstanding letters of credit and related liquidity covenant. In addition, Avid Technology had \$5.0 million in short-term outstanding borrowings under the credit facilities at June 30, 2014.

## 12. STOCK-BASED COMPENSATION

Information with respect to options granted under all the Company's stock option plans for the six months ended June 30, 2014 was as follows:

	Time-Based Shares	Performance-Based Shares	Total Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at January 1, 2014	3,237,915	1,488,500	4,726,415	\$14.18		
Granted	1,772,850	—	1,772,850	\$7.47		
Exercised	—	—	—	\$—		
Forfeited or canceled	(882,549)	(55,750)	(938,299)	\$15.88		
Options outstanding at June 30 2014	4,128,216	1,432,750	5,560,966	\$11.75	4.84	\$22
Options vested at June 30, 2014 or expected to vest			5,186,618	\$11.96	4.75	\$19
Options exercisable at June 30, 2014			2,048,253	\$16.46	3.32	\$7

Information with respect to the Company's non-vested restricted stock units for the six months ended June 30, 2014 was as follows:

	Non-Vested Restricted Stock Units			Weighted- Average Grant-Date Fair Value	Weighted- Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
	Time-Based Shares	Performance-Based Shares	Total Shares			
Non-vested at January 1, 2014	205,233	117,500	322,733	\$11.30		
Granted	—	—	—	\$—		
Vested	(61,719)	—	(61,719)	\$8.91		
Forfeited	(5,156)	(7,500)	(12,656)	\$8.93		
Non-vested at June 30, 2014	138,358	110,000	248,358	\$12.01	4.24	\$1,835
Expected to vest			185,431	\$11.33	3.65	\$1,370

Stock-based compensation was included in the following captions in the Company's consolidated statements of operations for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cost of products revenues	\$65	\$96	\$141	\$194
Cost of services revenues	98	116	175	244
Research and development expenses	113	173	240	318

Edgar Filing: AVID TECHNOLOGY, INC. - Form 10-Q

Marketing and selling expenses	642	473	934	1,054
General and administrative expenses	1,218	1,250	1,908	2,375
	\$2,136	\$2,108	\$3,398	\$4,185

13

---

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

EXECUTIVE OVERVIEW

Our Company

We provide technology products, solutions and services that enable the creation and monetization of audio and video content. Specifically, we develop, market, sell and support software and hardware for digital media content production, management and distribution. Digital media are video, audio or graphic elements in which the image, sound or picture is recorded and stored as digital values, as opposed to analog or tape-based signals. Our products are used in production and post-production facilities; film studios; network, affiliate, independent and cable television stations; recording studios; live-sound performance venues; advertising agencies; government and educational institutions; corporate communication departments; and by independent video and audio creative professionals and enthusiasts. Projects produced using our products include feature films, prime-time television shows, news programs, commercials, music, video and other recordings.

Our mission is to create the most powerful and collaborative media network that enables the creation, distribution and monetization of the most inspiring content in the world. Guided by our Avid Everywhere strategic vision, we strive to deliver the industry's most open, innovative and comprehensive media platform connecting content creation with collaboration, asset protection, distribution and consumption for the media in the world – from the most prestigious and award-winning feature films, music recordings, and television shows, to live concerts and news broadcasts.

Avid Everywhere, introduced in April 2013, is our strategic vision for connecting creative professionals and media organizations with their audiences in a more powerful, efficient, collaborative, and profitable way. In April 2014, we unveiled the details of our first product deliverables guided by Avid Everywhere. To deliver on this vision, we have developed and continue to advance the Avid MediaCentral Platform, a set of modular application suites that together represent an open, integrated, and flexible media production and distribution environment for the media industry. The Avid MediaCentral Platform is intended to allow anyone with a creative idea to conceptualize, produce, monetize, and distribute their work for the enjoyment and pleasure of others.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We base our estimates and judgments on historical experience and various other factors we believe to be reasonable under the circumstances, the results of which form the basis for judgments about the carrying values of assets and liabilities and the amounts of revenues and expenses. Actual results may differ from these estimates.

We believe that our critical accounting policies are those related to revenue recognition and allowances for sales returns and exchanges; stock-based compensation; income tax assets and liabilities; and restructuring charges and accruals. We believe these policies are critical because they most significantly affect the portrayal of our financial condition and results of operations and involve our most difficult and subjective estimates and judgments. A discussion of our critical accounting policies may be found in our 2013 Annual Report on Form 10-K in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Critical Accounting Policies and Estimates." There have been no significant changes to the identification of the accounting

policies and estimates that are deemed critical, nor have there been any significant changes to the policies applied or methodologies used by management to measure the critical accounting estimates.

## RESULTS OF OPERATIONS

The following table sets forth certain items from our consolidated statements of operations as a percentage of net revenues for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,		
	2014	2013	2014	2013	
Net revenues:					
Product revenues	70.1	% 70.6	% 70.1	% 71.6	%
Services revenues	29.9	% 29.4	% 29.9	% 28.4	%
Total net revenues	100.0	% 100.0	% 100.0	% 100.0	%
Cost of revenues	40.5	% 38.8	% 39.0	% 38.8	%
Gross margin	59.5	% 61.2	% 61.0	% 61.2	%
Operating expenses:					
Research and development	17.7	% 16.9	% 17.3	% 17.1	%
Marketing and selling	27.5	% 24.0	% 25.9	% 24.4	%
General and administrative	16.0	% 11.4	% 14.8	% 11.4	%
Amortization of intangible assets	0.3	% 0.5	% 0.3	% 0.5	%
Restructuring costs, net	(0.1)	)% 1.4	% (0.1)	)% 0.8	%
Total operating expenses	61.4	% 54.2	% 58.2	% 54.2	%
Operating (loss) income	(1.9)	)% 7.0	% 2.8	% 7.0	%
Interest and other income (expense), net	(0.3)	)% (0.2)	)% (0.3)	)% (0.2)	)%
(Loss) income before income taxes	(2.2)	)% 6.8	% 2.5	% 6.8	%
Provision for income taxes, net	0.5	% 0.5	% 0.4	% 0.4	%
Net (loss) income	(2.7)	)% 6.3	% 2.1	% 6.4	%

## Net Revenues

Our net revenues are derived mainly from sales of video and audio hardware and software products and solutions for digital media content production, management and distribution, and related professional services and maintenance contracts.

Net Revenues for the Three Months Ended June 30, 2014 and 2013

(dollars in thousands)

	2014	Change		2013
	Net Revenues	\$	%	Net Revenues
Video products and solutions net revenues	\$55,496	\$(2,566)	) (4.4)%	\$58,062
Audio products and solutions net revenues	31,819	(9,977)	) (23.9)%	41,796
Products and solutions net revenues	87,315	(12,543)	) (12.6)%	99,858
Services net revenues	37,329	(4,158)	) (10.0)%	41,487
Total net revenues	\$124,644	\$(16,701)	) (11.8)%	\$141,345

## Net Revenues for the Six Months Ended June 30, 2014 and 2013

(dollars in thousands)

	2014		Change		2013
	Net Revenues	\$		%	Net Revenues
Video products and solutions net revenues	\$115,574		\$(1,312)	(1.1)%	\$116,886
Audio products and solutions net revenues	66,311		(15,379)	(18.8)%	81,690
Products and solutions net revenues	181,885		(16,691)	(8.4)%	198,576
Services net revenues	77,741		(1,099)	(1.4)%	78,840
Total net revenues	\$259,626		\$(17,790)	(6.4)%	\$277,416

The following table sets forth the percentage of our net revenues attributable to geographic regions for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
United States	36%	40%	35%	39%
Other Americas	8%	8%	9%	9%
Europe, Middle East and Africa	43%	37%	42%	37%
Asia-Pacific	13%	15%	14%	15%

## Video Products and Solutions Revenues

Video products and solutions revenues are derived primarily from sales of our storage and workflow solutions, our media management solutions, and our video creative tools. Video products and solutions revenues decreased \$2.6 million, or 4.4%, for the three-month period ended June 30, 2014, and decreased \$1.3 million, or 1.1%, for the six-month period ended June 30, 2014, compared to the same periods in 2013. For the three-month period ended June 30, 2014, revenues from our media management solutions increased, while revenues from our video creative tools and our storage and workflow solutions decreased. For the six-month period, revenues from our storage and workflow solutions and our media management solutions increased, while revenues from our video creative tools decreased. The decreases for both the three- and six-month periods ended June 30, 2014 were primarily the result of lower amortization of deferred revenues (that is, lower recognition of revenue backlog) attributable to transactions executed on or before December 31, 2010, which, due to the adoption of ASU No. 2009-13 and ASU No. 2009-14, resulted in many of our product orders qualifying for upfront revenue recognition; whereas, prior to adoption of this accounting guidance the same orders required ratable recognition over periods of up to eight years. Revenue backlog associated with transactions executed prior to the adoption of ASU No. 2009-13 and ASU No. 2009-14 will continue to decline through 2016, before the balance is largely amortized, contributing less revenue each period. The decrease due to lower deferred revenue amortization for the six-month period was partially offset by increased revenues attributable to the 2014 FIFA World Cup as well as the 2014 Winter Olympics. We commonly sell large, complex solutions to our customers that have long lead times where the timing of order execution and fulfillment can be difficult to predict. As a result, the timing and amount of product revenue recognized each quarter related to these large orders, as well as the services associated with them, can fluctuate significantly from quarter to quarter and cause quarterly operating results to vary.

## Audio Products and Solutions Revenues

Audio products and solutions revenues are derived primarily from sales of our digital audio software and workstation solutions and our control surfaces, consoles and live-sound systems. Audio products and solutions revenues decreased \$10.0 million, or 23.9%, for the three-month period ended June 30, 2014, and decreased \$15.4 million, or 18.8%, for the six-month period ended June 30, 2014, compared to the same periods in 2013. The decreases in both the three- and

six-month periods ended June 30, 2014 were due to a delay in the availability of a new product line, which only started shipping in normal volumes in the third quarter of 2014, and the previously discussed lower amortization of deferred revenues attributable to transactions executed on or before December 31, 2010.



## Services Revenues

Services revenues are derived primarily from maintenance contracts, as well as professional services and training. Services revenues decreased \$4.2 million, or 10.0%, for the three-month period ended June 30, 2014, and decreased \$1.1 million, or 1.4%, for the six-month period ended June 30, 2014, compared to the same periods in 2013. The decrease for the three-month period was primarily the result of both lower maintenance revenues and lower professional services revenues, while the decrease for the six-month period was due lower maintenance revenues, partially offset by an increase in professional services revenues. The changes in professional services revenues are the result of the timing of recognition of professional services revenues, which is largely dependent upon the timing of large professional services engagements.

## Cost of Revenues, Gross Profit and Gross Margin Percentage

Cost of revenues consists primarily of costs associated with:

- procurement of components and finished goods;
- assembly, testing and distribution of finished products;
- warehousing;
- customer support related to maintenance;
- royalties for third-party software and hardware included in our products;
- amortization of technology; and
- providing professional services and training.

Amortization of technology represents the amortization of developed technology assets acquired as part of acquisitions.

## Costs of Revenues for the Three Months Ended June 30, 2014 and 2013

(dollars in thousands)

	2014	Change		2013
	Costs	\$	%	Costs
Cost of products revenues	\$35,097	\$(3,805)	(9.8)%	\$38,902
Cost of services revenues	15,323	(69)	(0.4)%	15,392
Amortization of intangible assets	—	(501)	(100.0)%	501
Total cost of revenues	\$50,420	\$(4,375)	(8.0)%	\$54,795
Gross profit	\$74,224	\$(12,326)	(14.2)%	\$86,550

## Costs of Revenues for the Six Months Ended June 30, 2014 and 2013

(dollars in thousands)

	2014	Change		2013
	Costs	\$	%	Costs
Cost of products revenues	\$70,091	\$(5,826)	(7.7)%	\$75,917
Cost of services revenues	30,994	326	1.1%	30,668
Amortization of intangible assets	50	(1,102)	(95.7)%	1,152
Total cost of revenues	\$101,135	\$(6,602)	(6.1)%	\$107,737
Gross profit	\$158,491	\$(11,188)	(6.6)%	\$169,679



## Gross Margin Percentage

Gross margin percentage, which is revenues less costs of revenues divided by revenues, fluctuates based on factors such as the mix of products sold, the cost and proportion of third-party hardware and software included in the systems sold, the offering of product upgrades, price discounts and other sales-promotion programs, the distribution channels through which products are sold, the timing of new product introductions, sales of aftermarket hardware products such as disk drives and currency exchange-rate fluctuations. Our total gross margin percentage for the three-month period ended June 30, 2014 decreased to 59.5% from 61.2% for the same period in 2013. Our total gross margin percentage for the six-month period ended June 30, 2014 decreased slightly to 61.0% from 61.2% for the same period in 2013. These decreases were the result of lower services gross margin percentages and to a lesser extent lower products gross margin percentages. As previously discussed, the revenues recognized from the amortization of deferred revenues (that is, the recognition of revenue backlog) attributable to transactions executed on or before December 31, 2010 will continue to decline until the related deferred revenue balances are largely amortized in 2016. These revenues have 100% margins, because the timing of the recognition of the deferred costs did not change as a result of our restatement, and our gross margin percentages will be negatively impacted year over year as these revenues decline. In addition to the gross margin percentage decline related to this deferred revenue amortization, our services gross margins declined in both periods due to lower services revenues on relatively fixed costs.

## Gross Margin % for the Three Months Ended June 30, 2014 and 2013

	2014 Gross Margin %	Decrease in Gross Margin %	2013 Gross Margin %
Products	59.8%	(1.2)%	61.0%
Services	59.0%	(3.9)%	62.9%
Total	59.5%	(1.7)%	61.2%

## Gross Margin % for the Six Months Ended June 30, 2014 and 2013

	2014 Gross Margin %	Decrease in Gross Margin %	2013 Gross Margin %
Products	61.5%	(0.3)%	61.8%
Services	60.1%	(1.0)%	61.1%
Total	61.0%	(0.2)%	61.2%

The decreases in our products gross margin percentages for both the three- and six-month periods ended June 30, 2014, compared to the same periods in 2013, were driven by the negative effect of the amortization of our deferred revenue balances as discussed above on relatively fixed overhead costs.

The decrease in our services gross margin percentage for the three-month period ended June 30, 2014, compared to the same period in 2013, was driven by lower maintenance and professional services revenues on fixed costs, while the decrease for the six-month period was primarily driven by lower maintenance revenues on fixed costs.

Operating Expenses and Operating (Loss) Income

Operating Expenses and Operating Income for the Three Months Ended June 30, 2014 and 2013  
(dollars in thousands)

	2014	Change		2013
	Expenses	\$	%	Expenses
Research and development expenses	\$22,070	\$(1,777)	(7.5)%	\$23,847
Marketing and selling expenses	34,297	394	1.2%	33,903
General and administrative expenses	19,984	3,853	23.9%	16,131
Amortization of intangible assets	398	(260)	(39.5)%	658
Restructuring (recoveries) costs, net	(165)	(2,083)	(108.6)%	1,918
Total operating expenses	\$76,584	\$127	0.2%	\$76,457
Operating (loss) income	\$(2,360)	\$(12,453)	(123.4)%	\$10,093

Operating Expenses and Operating Income for the Six Months Ended June 30, 2014 and 2013  
(dollars in thousands)

	2014	Change		2013
	Expenses	\$	%	Expenses
Research and development expenses	\$45,024	\$(2,430)	(5.1)%	\$47,454
Marketing and selling expenses	67,112	(700)	(1.0)%	67,812
General and administrative expenses	38,315	6,587	20.8%	31,728
Amortization of intangible assets	878	(443)	(33.5)%	1,321
Restructuring costs, net	(165)	(2,356)	(107.5)%	2,191
Total operating expenses	\$151,164	\$658	0.4%	\$150,506
Operating (loss) income	\$7,327	\$(11,846)	(61.8)%	\$19,173

Research and Development Expenses

Research and development, or R&D, expenses include costs associated with the development of new products and the enhancement of existing products, and consist primarily of employee compensation and benefits; facilities costs; depreciation; costs for consulting and temporary employees; and prototype and other development expenses. R&D expenses decreased \$1.8 million, or 7.5%, for the three-month period ended June 30, 2014, and decreased \$2.4 million, or 5.1%, for the six-month period ended June 30, 2014, compared to the same period in 2013.

Change in Research and Development Expenses for the Three Months Ended June 30, 2014 and 2013  
(dollars in thousands)

	2014 (Decrease)		
	Increase	From 2013	
	\$	%	%
Personnel-related expenses	\$(1,563)	(10.9)	)%
Facilities and information technology infrastructure costs	(357)	(8.3)	)%
Other expenses	143	2.7	)%
Total research and development expenses decrease	\$(1,777)	(7.5)	)%



Edgar Filing: AVID TECHNOLOGY, INC. - Form 10-Q

Change in Research and Development Expenses for the Six Months Ended June 30, 2014 and 2013  
(dollars in thousands)

	2014 (Decrease) Increase From 2013		
	\$	%	
Personnel-related expenses	\$(1,693 )	(6.0 )	%
Facilities and information technology infrastructure costs	(777 )	(9.0 )	%
Other expenses	40	0.4	%
Total research and development expenses decrease	\$(2,430 )	(5.1 )	%

The decreases in personnel-related expenses and facilities and information technology infrastructure costs for the three- and six-month periods ended June 30, 2014, compared to the same periods in 2013, reflect headcount reductions and lower facilities and information technology overhead costs.

Marketing and Selling Expenses

Marketing and selling expenses consist primarily of employee compensation and benefits for selling, marketing and pre-sales customer support personnel; commissions; travel expenses; advertising and promotional expenses; and facilities costs. Marketing and selling costs expenses increased \$0.4 million, or 1.2%, for the three-month period ended June 30, 2014, and decreased \$0.7 million, or 1.0%, for the six-month period ended June 30, 2014, compared to the same periods in 2013.

Change in Marketing and Selling Expenses for the Three Months Ended June 30, 2014 and 2013  
(dollars in thousands)

	2014 Increase (Decrease) From 2013		
	\$	%	
Consulting and outside services expenses	\$1,251	39.7	%
Foreign exchange (gains) losses	466	373.9	%
Tradeshaw and promotional expenses	296	8.7	%
Personnel-related expenses	(682 )	(2.0 )	%
Product introduction expenses	(663 )	(104.7 )	%
Other expenses	(274 )	(4.1 )	%
Total marketing and selling expenses increase	\$394	1.2	%

Change in Marketing and Selling Expenses for the Six Months Ended June 30, 2014 and 2013  
(dollars in thousands)

	2014 (Decrease) Increase From 2013		
	\$	%	
Foreign exchange (gains) losses	\$1,644	417.3	%
Consulting and outside services expenses	1,602	25.4	%
Tradeshaw and promotional expenses	318	6.0	%
Product introduction expenses	(2,766 )	(100.5 )	%
Other expenses	(1,498 )	(2.8 )	%
Total marketing and selling expenses decrease	\$(700 )	(1.0 )	%

The increases in consulting and outside services expenses and tradeshow and promotional expenses for the three- and six-month periods ended June 30, 2014, compared to the same periods in 2013, were primarily the result of costs related to our Avid Customer Association, or ACA, which was launched in September 2013, and the inaugural ACA event, Avid Connect, which took place in April 2014. The decreases in product introduction expenses for both periods were the result of significant new product

20

---

introductions during the first half of 2013. The decrease in personnel-related expenses for the three-month period was the result of lower salaries and benefits and a decrease in travel expenses, partially offset by an increase in incentive-based compensation. During the six-month period ended June 30, 2014, net foreign exchange losses (specifically, foreign exchange transaction gains on net monetary assets denominated in foreign currencies), which are included in marketing and selling expenses, were \$1.2 million, compared to gains of \$0.4 million in the 2013 period, resulting in a \$1.6 million offset to the decreases in the other marketing and selling expense categories. We classify these gains and losses within marketing and selling expenses because the gains and losses generally arise from revenue arrangements that are denominated in foreign currencies to facilitate sales in certain foreign jurisdictions.

#### General and Administrative Expenses

General and administrative expenses consist primarily of employee compensation and benefits for administrative, executive, finance and legal personnel; audit, legal and strategic consulting fees; and insurance, information systems and facilities costs. Information systems and facilities costs reported within general and administrative expenses are net of allocations to other expenses categories. General and administrative expenses increased \$3.9 million, or 23.9%, for the three-month period ended June 30, 2014, and increased \$6.6 million, or 20.8%, for the six-month period ended June 30, 2014, compared to the same periods in 2013, primarily as a result of costs incurred in 2014 related to the restatement of our September 30, 2012 and prior financial statements and increased related legal expenses.

#### Change in General and Administrative Expenses for the Three Months Ended June 30, 2014 and 2013 (dollars in thousands)

	2014 Increase (Decrease) From 2013		
	\$	%	
Consulting and outside services expenses	\$3,113	47.2	%
Facilities and information technology infrastructure costs	359	15.3	%
Personnel-related expenses	269	4.1	%
Other expenses	112	18.5	%
Total general and administrative expenses increase	\$3,853	23.9	%

#### Change in General and Administrative Expenses for the Six Months Ended June 30, 2014 and 2013 (dollars in thousands)

	2014 Increase (Decrease) From 2013		
	\$	%	
Consulting and outside services expenses	\$7,867	78.0	%
Facilities and information technology infrastructure costs	584	12.0	%
Personnel-related expenses	(1,652)	(10.8)	%
Other expenses	(212)	(15.6)	%
Total general and administrative expenses increase	\$6,587	20.8	%

The increases in consulting and outside services costs for the three- and six-month periods ended June 30, 2014, compared to the same periods in 2013, were primarily the result of costs incurred in 2014 related to the restatement of our September 30, 2012 and prior financial statements and increased related legal expenses. The increases in facilities and information technology infrastructure costs for both 2014 periods were primarily the result of increased usage of facilities costs by the general and administrative function. The increase in personnel-related expenses for the three-month period was primarily the result of an increase in incentive-based compensation accruals. The decrease in



personnel-related expenses for the six-month period was primarily the result of lower costs during the first quarter of 2014 for stock-based compensation expense, salary and benefit expenses, and our 2013 management transition costs that were not present during the 2014 period, partially offset by increased accruals for incentive-based compensation.

## Amortization of Intangible Assets

Intangible assets result from acquisitions and include developed technology, customer-related intangibles, trade names and other identifiable intangible assets with finite lives. These intangible assets are amortized using the straight-line method over the estimated useful lives of such assets, which are generally two years to twelve years. Amortization of developed technology is recorded within cost of revenues. Amortization of customer-related intangibles, trade names and other identifiable intangible assets is recorded within operating expenses. The decreases in amortization of intangible assets recorded in both cost of revenues and operating expenses for the three- and six-month periods ended June 30, 2014, compared to the same periods in 2013, were the result of certain acquired intangible assets becoming fully amortized.

## Provision for Income Taxes, Net

Provision for Income Taxes, Net for the Three Months Ended June 30, 2014 and 2013  
(dollars in thousands)

	2014	Change		2013
	Provision	\$	%	Provision
Provision for income taxes, net	\$622	\$(47	) (7.0)%	\$669

Provision for Income Taxes, Net for the Six Months Ended June 30, 2014 and 2013  
(dollars in thousands)

	2014	Change		2013
	Provision	\$	%	Provision
Provision for income taxes, net	\$1,062	\$(164	) (13.4)%	\$1,226

Our effective tax rate, which represents our tax provision as a percentage of income before tax, was 16.0% and 6.6%, respectively, for the six-month periods ended June 30, 2014 and 2013. During the six-month period ended June 30, 2014, there was a net discrete tax benefit of \$0.2 million which is primarily comprised of a \$0.3 million benefit for the reversal of a previously accrued Canada withholding tax penalty. By comparison, during the six-month period ended June 30, 2013, there were no significant discrete items that impacted the tax provision. No benefit is provided for losses generated in the United States and certain foreign jurisdictions, including Ireland, due to the full valuation allowance on the respective deferred tax assets.

## LIQUIDITY AND CAPITAL RESOURCES

## Liquidity and Sources of Cash

We have generally funded our operations in recent years through the use of existing cash balances, which we have supplemented from time to time with borrowings under our credit facilities. At June 30, 2014, our principal sources of liquidity included cash and cash equivalents totaling \$23.0 million and available borrowings under our credit facilities as discussed below.

At June 30, 2014, our working capital was \$(150.5) million, compared to \$(133.0) million at December 31, 2013. Our working capital deficit at both dates was largely due to the significant level of deferred revenues recorded, which consist of service obligations that do not represent meaningful cash requirements. As a result of the application of the relevant revenue recognition guidance, we have deferred a significant portion of revenues from sales transactions occurring prior to 2011 to subsequent periods and recorded them as deferred revenues. We have experienced a decrease in cash during 2013 and 2014 due to significantly higher outside professional fees and consultant costs

resulting from the restatement of our financial statements. Cash used in operating activities aggregated \$26.1 million for the six months ended June 30, 2014, with more than half of the cash usage attributable to costs associated with restatement-related activities. The use of cash associated with the restatement-related activities is expected to total an additional \$14 million to \$16 million for the remainder of 2014 and then materially abate by the end of 2014.

On October 1, 2010, we entered into a Credit Agreement with Wells Fargo Capital Finance LLC, or Wells Fargo, that established two revolving credit facilities with combined maximum availability of up to \$60 million for borrowings or letter of credit guarantees. The actual amount of credit available to us will vary depending upon changes in the level of the respective accounts

receivable and inventory, and is subject to other terms and conditions. On August 29, 2014, we entered into an amendment to our Credit Agreement that extended the maturity date from October 1, 2014 to October 1, 2015.

The amended Credit Agreement contains customary representations and warranties, covenants, mandatory prepayments, and events of default under which our payment obligations may be accelerated, including guarantees and liens on substantially all of our assets to secure their obligations under the Credit Agreement. The Credit Agreement requires that Avid Technology, Inc., our parent company, maintain liquidity (comprised of unused availability under its portion of the credit facilities plus certain unrestricted cash and cash equivalents) of \$10.0 million, at least \$5.0 million of which must be from unused availability under its portion of the credit facilities, and our subsidiary, Avid Technology International B.V., or Avid Europe, is required to maintain liquidity (comprised of unused availability under the Avid Europe portion of the credit facilities plus certain unrestricted cash and cash equivalents) of \$5.0 million, at least \$2.5 million of which must be from unused availability under the Avid Europe portion of the credit facilities. The Credit Agreement further limits our ability to access borrowings under the credit facilities in the event capital expenditures, as defined in the Credit Agreement, exceed \$16.0 million for the year ending December 31, 2014 or EBITDA (as defined in the Amendment) of \$33.8 million for the year ending December 31, 2014 is not achieved. Interest accrues on outstanding borrowings under the credit facilities at a rate of either LIBOR plus 2.75% or a base rate (as defined in the Credit Agreement) plus 1.75%, at the option of Avid Technology, Inc. or Avid Europe, as applicable. We must also pay Wells Fargo a monthly unused line fee at a rate of 0.625% per annum. Any borrowings under the credit facilities are secured by a lien on substantially all the assets of Avid Technology and Avid Europe. Any borrowings under the credit facilities are secured by a lien on substantially all the assets of Avid Technology and Avid Europe. See Note 11, Credit Agreement, to our Condensed Consolidated Financial Statements in Item 1 of this Form 10-Q for further detail on our Credit Agreement.

During the six months ended June 30, 2014, we borrowed \$11.5 million against our credit facilities to meet certain short-term cash requirements, \$6.5 million of which was repaid during the second quarter of 2014. At June 30, 2014, we had \$5.0 million short-term outstanding borrowings under our credit facilities. At June 30, 2014, Avid Technology, Inc. and Avid Europe had certain reserves and letters of credit guaranteed under the credit facilities of \$4.0 million and \$1.0 million, respectively, and available borrowings under the credit facilities of \$12.0 million and \$12.6 million, respectively, after taking into consideration reserves, outstanding letters of credit and liquidity covenants.

#### Cash Flows

The following table summarizes our cash flows for the six months ended June 30, 2014 and 2013 (in thousands):

	Six Months Ended June 30,	
	2014	2013
Net cash used in operating activities	\$(26,082)	\$(5,556)
Net cash used in investing activities	(4,880)	(5,183)
Net cash used in financing activities	4,860	(55)
Effect of foreign currency exchange rates on cash and cash equivalents	948	(3,492)
Net decrease in cash and cash equivalents	\$(25,154)	\$(14,286)

#### Cash Flows from Operating Activities

Cash used in operating activities aggregated \$26.1 million for the six months ended June 30, 2014. More than half of the cash usage during the six months ended June 30, 2014 was attributable to costs associated with restatement-related activities, and the remaining balance was attributable to payments of incentive-based compensation and, to a lesser extent, restructuring activities. The use of cash associated with the restatement and restructuring activities is expected to materially abate by the end of 2014, and the Company does not anticipate any further significant payments related

to incentive-based compensation for the balance of 2014.

#### Cash Flows from Investing Activities

For the six months ended June 30, 2014, the net cash flow used in investing activities reflected \$6.4 million used for the purchase of property and equipment, partially offset by cash of \$1.5 million released from escrow related to our 2012 consumer business divestiture. Our purchases of property and equipment typically consist of computer hardware and software to support R&D activities and information systems.

#### Cash Flows from Financing Activities

For the six months ended June 30, 2014, the net cash flow used in financing activities reflected costs associated with tax withholding obligations related to the issuance of common stock upon vesting of restricted stock awards. During the six months ended June 30, 2014, we borrowed \$11.5 million against our credit facilities to meet certain short-term cash requirements, \$6.5 million of which was repaid during the second quarter of 2014. At June 30, 2014, we had \$5.0 million in short-term outstanding borrowings under our credit facilities.

### RECENT ACCOUNTING PRONOUNCEMENTS

#### Recent Accounting Pronouncements To Be Adopted

On May 28, 2014, the Financial Accounting Standards Board, or the FASB, and International Accounting Standards Board, or the IASB, issued substantially converged final standards on revenue recognition. FASB ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), was issued in three parts: (a) Section A, “Summary and Amendments That Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs-Contracts with Customers (Subtopic 340-40),” (b) Section B, “Conforming Amendments to Other Topics and Subtopics in the Codification and Status Tables” and (c) Section C, “Background Information and Basis for Conclusions.” The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance.

The new revenue recognition guidance becomes effective for us on January 1, 2017, and early adoption is not permitted. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance in the ASU. We have not yet selected a transition method and are evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

#### Foreign Currency Exchange Risk

We have significant international operations and, therefore, our revenues, earnings, cash flows and financial position are exposed to foreign currency risk from foreign-currency-denominated receivables, payables, sales transactions and net investments in foreign operations. We derive more than half of our revenues from customers outside the United States. This business is, for the most part, transacted through international subsidiaries and generally in the currency of the end-user customers. Therefore, we are exposed to the risks that changes in foreign currency could adversely affect our revenues, net income and cash flow.

We generally use derivatives in the form of foreign currency contracts to manage certain short-term exposures to fluctuations in the foreign currency exchange rates that exist as part of our ongoing international business operations.

We do not enter into any derivative instruments for trading or speculative purposes. The success of our hedging programs depends on forecasts of transaction activity in the various currencies and contract rates versus financial statement rates. To the extent these forecasts are overstated or understated during periods of currency volatility, we could experience unanticipated currency gains or losses.

We record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and whether we have elected to designate the derivative as a hedge. We may also enter into derivative contracts that are intended to economically hedge certain of our risks, even though we elect not to apply hedge accounting.

In an effort to hedge against the foreign exchange exposure of certain forecasted receivables, intercompany accounts, payables and cash balances, we enter into short-term foreign currency forward contracts. There are two objectives of this foreign currency forward-contract program: (1) to offset any foreign exchange currency risk associated with cash receipts expected to be received from our customers and cash payments expected to be made to our vendors over the next 30-day period and (2) to offset the impact of foreign currency exchange on our net monetary assets denominated in currencies other than the functional currency of the legal entity. These forward contracts typically mature within 30 days of execution. We record gains and losses associated with currency rate changes on these contracts in results of operations, offsetting gains and losses on the related assets and liabilities. At June 30, 2014, we had foreign currency forward contracts outstanding with an aggregate notional value of \$35.1

million, denominated in the euro, British pound, Japanese yen, Danish krone, Canadian dollar, Singapore dollar and Australian dollar as a hedge against actual and forecasted foreign-currency-denominated receivables, payables and cash balances. At June 30, 2014, we also had short-term foreign currency spot and forward contracts with an aggregate notional value of \$4.4 million, denominated in the euro and Japanese yen, as a hedge against the foreign currency exchange risk associated with certain of our net monetary assets denominated in foreign currencies.

We have not designated these forward contracts as hedging instruments pursuant to ASC 815, Derivatives and Hedging and accordingly, we recorded the fair value of these contracts at the end of each reporting period in our consolidated balance sheet, with changes in the fair value recorded in our marketing and selling expenses. During the six months ended June 30, 2014 and 2013, we recorded net (losses) gains of \$(1.3) million and \$0.4 million, respectively, that resulted from the gains and losses on our foreign currency contracts and the revaluation of the related hedged items.

A hypothetical change of 10% change in appreciation or depreciation of foreign currency exchange rates from the quoted foreign currency exchange rates at June 30, 2014, would not have a significant impact on our financial position, results of operations or cash flows because the impact on the foreign currency contracts as a result of a 10% change would at least partially offset the impact on the revenues and asset and liability positions of our foreign subsidiaries.

#### Interest Rate Risk

At June 30, 2014, we held \$23.0 million in cash and cash equivalents. Due to the short maturities on any instruments held, a hypothetical 10% increase or decrease in interest rates would not have a material impact on our financial position, results of operations or cash flows. We maintain revolving credit facilities that allow us to borrow up to \$60 million. During the six months ended June 30, 2014, we borrowed \$11.5 million against our credit facilities to meet certain short-term cash requirements, \$6.5 million of which was repaid during the second quarter of 2014. At June 30, 2014, we had \$5.0 million short-term outstanding borrowings under our credit facilities. A hypothetical 10% increase or decrease in interest rates paid on outstanding borrowings under the credit line would not have a material impact on our financial position, results of operations or cash flows.

## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

Our management, with the participation and supervision of our Chief Executive Officer and Chief Financial Officer, is responsible for our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified under SEC rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, including the Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures as of June 30, 2014. Based on this evaluation, our management concluded that as of June 30, 2014 these disclosure controls and procedures were not effective at the reasonable assurance level as a result of the material weaknesses in our internal control over financial reporting, which



are described in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2013. As discussed below, our internal control over financial reporting is an integral part of our disclosure controls and procedures.

#### Changes in Internal Control over Financial Reporting

Under applicable SEC rules (Exchange Act Rules 13a-15(c) and 15d-15(c)) management is required to evaluate any changes in internal control over financial reporting that occurred during each fiscal quarter that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. As discussed in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2013, we have undertaken a broad range of remedial procedures to address the material weaknesses in our internal control over financial reporting. These remedial procedures entailed substantive procedures that were designed to obtain a reasonable level of assurance on financial statement amounts and disclosures. These remedial procedures continued throughout the six months ended June 30, 2014 and will continue throughout the remainder of 2014. While we continue to

implement remediation efforts and design enhancement to our internal control procedures, we do not believe there were any significant changes in internal controls implemented during the six months ended June 30, 2014.

#### Inherent Limitation on the Effectiveness of Internal Controls

The effectiveness of any system of internal control over financial reporting is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, any system of internal control over financial reporting can only provide reasonable, not absolute, assurances. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business, but cannot assure that such improvements will be sufficient to provide us with effective internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

In March 2013 and May 2013, two purported securities class action lawsuits were filed against us and certain of our former executive officers seeking unspecified damages in the U.S. District Court for the District of Massachusetts. In July 2013, the two cases were consolidated and the original plaintiffs agreed to act as co-plaintiffs in the consolidated case. In September 2013, the co-plaintiffs filed a consolidated amended complaint on behalf of those who purchased our common stock between October 23, 2008 and March 20, 2013. The consolidated amended complaint, which named us, certain of our current and former executive officers and our former independent accounting firm as defendants, purported to state a claim for violation of federal securities laws as a result of alleged violations of the federal securities laws pursuant to Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. In October 2013, we filed a motion to dismiss the consolidated amended complaint, resulting in the dismissal of some of the claims, and the dismissal of Mr. Hernandez and one of the two plaintiffs from the case. The matter is scheduled for trial in March 2015.

In June 2013, a purported stockholder of the Company filed a derivative complaint against us as nominal defendant and certain of our current and former directors and officers in the U.S. District Court for the District of Massachusetts. The complaints alleged various violations of state law, including breaches of fiduciary duties, waste of corporate assets and unjust enrichment. The derivative complaint sought, inter alia, a monetary judgment, equitable and/or injunctive relief, restitution, disgorgement and a variety of purported corporate governance reforms. On October 30, 2013, the complaint was dismissed without prejudice. On November 26, 2013, our Board received a letter from the plaintiff in the dismissed derivative suit, demanding that our Board investigate, address and commence proceedings against certain of our directors, officers, employees and agents based on conduct identified in the dismissed complaint. In December 2013, our Board created a committee to conduct an investigation into the allegations in the demand letter.

In April and May 2013, we received a document preservation request and inquiry from the Division of Enforcement of the Securities and Exchange Commission and a federal grand jury subpoena from the Department of Justice requesting certain documents, including in particular documents related to our disclosures regarding our accounting review and revenue transactions. We have produced documents responsive to such requests and have provided regular updates to the authorities on our accounting evaluation. We intend to continue to cooperate fully with the authorities. We cannot predict or determine the timing or outcome of these inquiries, the ultimate cost of responding to the inquiries or the impact, if any, of the inquiries on our financial position, results of operations or cash flows. However, although there can be no assurance, we believe that, based on information currently available, the outcome of these inquiries will not have a material adverse impact on our overall operations, financial condition or liquidity.

Our industry is characterized by the existence of a large number of patents and frequent claims and litigation regarding patent and other intellectual property rights. In addition to the legal proceedings described above, we are involved in legal proceedings from time to time arising from the normal course of business activities, including claims of alleged infringement of intellectual property rights and contractual, commercial, employee relations, product or service performance, or other matters. We do not believe these matters will have a material adverse effect on our financial position or results of operations. However, the outcome of legal proceedings and claims brought against us is subject to significant uncertainty. Therefore, our financial position or results of operations may be negatively affected by the unfavorable resolution of one or more of these proceedings for the period in which a matter is resolved. See Part I - Item 1A under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2013. Our results could be materially adversely affected if we are accused of, or found to be, infringing third parties' intellectual property rights.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described in Part I - Item 1A under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2013 in addition to the other information included or incorporated by reference in this Form 10-Q before making an investment decision regarding our common stock. If any of these risks actually occurs, our business, financial condition or operating results would likely suffer, possibly materially, the trading price of our common stock could decline, and you could lose part or all of your investment.

ITEM 6. EXHIBITS

The list of exhibits, which are filed or furnished with this report or are incorporated herein by reference, is set forth in the Exhibit Index immediately preceding the exhibits and is incorporated herein by reference.

28

---

SIGNATURE

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.  
(Registrant)

Date: October 20, 2014

By: /s/ John W. Frederick  
Name: John W. Frederick  
Title: Executive Vice President, Chief Financial  
Officer and Chief Administrative Officer

## EXHIBIT INDEX

Exhibit No.	Description	Filed with this Form 10-Q	Incorporated by Reference		
			Form or Schedule	SEC Filing Date	SEC File Number
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
*100.INS	XBRL Instance Document	X			
*100.SCH	XBRL Taxonomy Extension Schema Document	X			
*100.CAL	XBRL Taxonomy Calculation Linkbase Document	X			
*100.DEF	XBRL Taxonomy Definition Linkbase Document	X			
*100.LAB	XBRL Taxonomy Label Linkbase Document	X			
*100.PRE	XBRL Taxonomy Presentation Linkbase Document	X			

Pursuant to Rule 406T of Regulation S-T, XBRL (Extensible Business Reporting Language) information is deemed not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934 and otherwise is not subject to liability under these sections.