

AVID TECHNOLOGY, INC.
Form 10-Q
November 09, 2016

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 September 30, 2016
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: 1-36254

Avid Technology, Inc.
(Exact Name of Registrant as Specified in Its Charter)
Delaware 04-2977748
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) 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 Accelerated Filer
Non-accelerated Filer Smaller Reporting Company
(Do not check if smaller reporting company)

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

The number of shares outstanding of the registrant's Common Stock, par value \$0.01, as of November 4, 2016 was 40,625,177.

AVID TECHNOLOGY, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (“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, among others, the following:

- our ability to successfully implement our Avid Everywhere strategic plan and other strategic initiatives, including our cost saving strategies;
 - our ability to develop, market and sell new products and services;
 - anticipated trends relating to our sales, financial condition or results of operations, including our shift to a recurring revenue model and complex enterprise sales with elongated sales cycles;
 - our ability to achieve our goal of expanding our market positions;
 - the anticipated performance of our products;
 - our business strategies and market positioning;
 - our ability to successfully consummate acquisitions, or investment transactions and successfully integrate acquired businesses including the acquisition of Orad Hi-Tech Ltd (“Orad”), into our operations;
 - our anticipated benefits and synergies from and the anticipated financial impact of any acquired business (including Orad);
 - the anticipated trends and developments in our markets and the success of our products in these markets;
 - our ability to effectively mitigate and remediate the material weaknesses in our internal control over financial reporting, and the expected timing thereof;
 - our capital resources and the adequacy thereof;
 - our ability to service our debt and meet the obligations thereunder, including our ability to satisfy our conversion and repurchase obligations under our convertible notes due 2020;
 - the outcome, impact, costs and expenses of any litigation or government inquiries to which we are or become subject;
 - the effect of the continuing worldwide macroeconomic uncertainty on our business and results of operation, including Brexit;
 - the expected timing of recognition of revenue backlog as revenue, and the timing of recognition of revenues from subscription offerings;
 - estimated asset and liability values and amortization of our intangible assets;
 - our compliance with covenants contained in the agreements governing our indebtedness;
 - changes in inventory levels;
 - seasonal factors;
 - plans regarding repatriation of foreign earnings;
 - fluctuations in foreign exchange and interest rates; and
 - the risk of restatement of our financial statements.
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Actual results and events in future periods may differ materially from those expressed or implied by forward-looking statements in this Form 10-Q. 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 herein and in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015, in Part II, Item 1A of our quarterly reports for the quarters ended March 31, 2016 and June 30, 2016 and in other documents we filed from time to time with the U.S. Securities and Exchange Commission (“SEC”). 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, except as required by law.

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, iNEWS, Interplay, ISIS, Avid MediaCentral Platform, 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		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net revenues:				
Products	\$63,740	\$88,945	\$223,841	\$245,124
Services	55,279	48,491	172,794	121,665
Total net revenues	119,019	137,436	396,635	366,789
Cost of revenues:				
Products	26,793	32,256	82,405	92,416
Services	14,885	15,416	45,126	46,054
Amortization of intangible assets	1,950	1,950	5,850	2,113
Total cost of revenues	43,628	49,622	133,381	140,583
Gross profit	75,391	87,814	263,254	226,206
Operating expenses:				
Research and development	19,953	25,225	62,791	71,708
Marketing and selling	27,231	31,564	89,027	92,420
General and administrative	13,822	15,834	48,359	52,646
Amortization of intangible assets	567	786	2,135	1,568
Restructuring costs, net	5,314	—	7,878	539
Total operating expenses	66,887	73,409	210,190	218,881
Operating income	8,504	14,405	53,064	7,325
Interest expense	(4,702)	(2,469)	(13,702)	(3,722)
Other expense, net	(5)	(50)	(347)	(959)
Income before income taxes	3,797	11,886	39,015	2,644
(Benefit from) provision for income taxes	(5,321)	768	(3,983)	(4,221)
Net income	\$9,118	\$11,118	\$42,998	\$6,865
Net income per common share – basic and diluted	\$0.23	\$0.28	\$1.08	\$0.17
Weighted-average common shares outstanding – basic	40,194	39,231	39,814	39,417
Weighted-average common shares outstanding – diluted	40,476	39,750	39,950	40,727

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 September 30, 2016		Nine Months Ended September 30, 2015	
Net income	\$9,118	\$11,118	\$42,998	\$6,865
Other comprehensive income:				
Foreign currency translation adjustments	155	(1,735)	2,613	(5,403)
Comprehensive income	\$9,273	\$9,383	\$45,611	\$1,462

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

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

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 47,717	\$ 17,902
Accounts receivable, net of allowances of \$8,491 and \$9,226 at September 30, 2016 and December 31, 2015, respectively	40,850	58,807
Inventories	55,634	48,073
Prepaid expenses	6,901	6,548
Other current assets	7,104	6,119
Total current assets	158,206	137,449
Property and equipment, net	32,969	35,481
Intangible assets, net	25,245	33,219
Goodwill	32,643	32,643
Long-term deferred tax assets, net	2,028	2,011
Other long-term assets	11,827	7,123
Total assets	\$ 262,918	\$ 247,926
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 25,852	\$ 45,511
Accrued compensation and benefits	27,439	28,124
Accrued expenses and other current liabilities	33,434	35,354
Income taxes payable	658	1,023
Short-term debt	5,000	5,000
Deferred revenues	157,468	189,887
Total current liabilities	249,851	304,899
Long-term debt	188,301	95,950
Long-term deferred tax liabilities, net	1,367	3,443
Long-term deferred revenues	82,540	158,495
Other long-term liabilities	13,592	14,711
Total liabilities	535,651	577,498
Contingencies (Note 8)		
Stockholders' deficit:		
Common stock	423	423
Additional paid-in capital	1,043,563	1,055,838
Accumulated deficit	(1,276,369)	(1,319,318)
Treasury stock at cost	(34,784)	(58,336)
Accumulated other comprehensive loss	(5,566)	(8,179)
Total stockholders' deficit	(272,733)	(329,572)
Total liabilities and stockholders' deficit	\$ 262,918	\$ 247,926

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)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$42,998	\$6,865
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	19,169	13,936
Provision (recovery) for doubtful accounts	890	(175)
Stock-based compensation expense	6,116	7,731
Non-cash provision for restructuring	1,137	—
Non-cash interest expense	7,935	1,544
Unrealized foreign currency transaction losses (gains)	2,021	(5,098)
Benefit for deferred taxes	(5,187)	(6,504)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	17,057	6,844
Inventories	(7,561)	4,028
Prepaid expenses and other current assets	(1,493)	1,772
Accounts payable	(19,627)	4,932
Accrued expenses, compensation and benefits and other liabilities	(4,384)	(17,764)
Income taxes payable	347	1,268
Deferred revenues	(108,343)	(55,466)
Net cash used in operating activities	(48,925)	(36,087)
Cash flows from investing activities:		
Purchases of property and equipment	(9,681)	(11,110)
Payments for business and technology acquisitions, net of cash acquired	—	(65,967)
Increase in other long-term assets	(17)	(575)
Increase in restricted cash	(4,544)	(1,047)
Net cash used in investing activities	(14,242)	(78,699)
Cash flows from financing activities:		
Proceeds from long-term debt	100,000	120,401
Repayment of debt	(2,500)	—
Payments for repurchase of common stock	—	(7,999)
Cash paid for capped call transaction	—	(10,125)
Proceeds from the issuance of common stock under employee stock plans	5,914	3,113
Common stock repurchases for tax withholdings for net settlement of equity awards	(803)	(1,442)
Proceeds from revolving credit facilities	25,000	49,500
Payments on revolving credit facilities	(30,000)	(39,500)
Payments for credit facility issuance costs	(5,020)	(1,193)
Net cash provided by financing activities	92,591	112,755
Effect of exchange rate changes on cash and cash equivalents	391	(1,045)
Net increase (decrease) in cash and cash equivalents	29,815	(3,076)
Cash and cash equivalents at beginning of period	17,902	25,056
Cash and cash equivalents at end of period	\$47,717	\$21,980
Supplemental information:		
Cash paid for income taxes, net of refunds	\$1,678	\$1,538

Cash paid for interest	5,767	1,492
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The accompanying notes are an integral part of the condensed consolidated financial statements.

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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 (loss) 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, 2015 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, 2015 in its Annual Report on Form 10-K for the year ended December 31, 2015, 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 Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

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, supplemented from time to time with the proceeds of long-term debt and borrowings under its credit facilities. The Company’s principal sources of liquidity include cash and cash equivalents totaling \$47.7 million as of September 30, 2016.

In February 2016, the Company committed to a cost efficiency program that encompasses a series of measures intended to allow the Company to more efficiently operate in a leaner, and more directed cost structure. These measures include reductions in the Company’s workforce, facilities consolidation, transferring certain business processes to lower cost regions and reducing other third-party service costs. In connection with this cost efficiency program, the Company has incurred \$14.5 million of the total expected incremental cash expenditures, approximately \$25 million, relating to termination benefits, facility costs, employee overlap expenses and related actions. The Company anticipates that the cost efficiency program will be substantially complete by the end of the second quarter of 2017 and, when fully implemented, will result in annualized costs savings of approximately \$76 million.

In connection with the cost efficiency program, on February 26, 2016, the Company entered into a Financing Agreement (the “Financing Agreement”) with the lenders party thereto (the “Lenders”). Pursuant to the Financing Agreement, the Company entered into a term loan in the aggregate principal amount of \$100 million. The Financing Agreement also provides the Company with the ability to draw up to a maximum of \$5 million in revolving credit. All outstanding loans under the Financing Agreement will become due and payable in February 2021, or in May 2020 if the \$125 million in outstanding principal of 2.00% convertible senior notes due June 15, 2020 (the “Notes”) has not been repaid or refinanced by such time. Proceeds from the Financing Agreement have been used to replace an existing \$35 million revolving credit facility, finance the Company’s efficiency program and other initiatives, and provide operating flexibility throughout the remainder of the transformation in this period of heightened market volatility.

After paying for both debt issuance costs and the cost efficiency program, the new financing provided approximately \$70 million of available liquidity, about half of which replaced the prior revolving credit facility with the remainder providing incremental liquidity to fund operations. The Financing Agreement requires the Company to comply with a financial statement covenant that stipulates a maximum leverage ratio (defined to mean the ratio of (a) consolidated total funded indebtedness to (b) consolidated EBITDA) of no greater than 4.35:1.00 for the four quarters ending June 30, 2016; 5.40:1.00 for the four quarters ending September 30, 2016; 4.20:1.00 for the four quarters ending December 31, 2016 and thereafter declining over time from 3.50:1.00 to 2.50:1.00. The Financing Agreement also restricts the Company from making capital expenditures in excess of \$20 million in any fiscal year. As of September 30, 2016 the Company was in compliance with these covenants.

The Company's ability to satisfy the leverage ratio covenant in the future is heavily dependent on its ability to increase bookings and billings above levels experienced over the last 12 months. In recent quarters, the Company has experienced volatility in bookings and billings resulting from, among other things, (i) its transition towards subscription and recurring revenue streams and the resulting decline in traditional upfront product sales, (ii) volatility in currency rates and in particular the strengthening of the US dollar against the Euro, (iii) dramatic changes in the media industry and the impact it has on the Company's customers and (iv) the impact of new and anticipated product launches and features. In addition to the impact of new bookings and billings, GAAP revenues recognized as the result of the existence of Implied Maintenance Release PCS (as defined below) in prior periods will decline significantly for the remainder of 2016 and in 2017, which will have an adverse impact on the Company's leverage ratio.

In the event bookings and billings in future quarters are lower than the Company currently anticipates, it may be forced to take remedial actions which could include, among other things (and where allowed by the Lenders), (i) further cost reductions, (ii) seeking replacement financing, (iii) raising additional equity or (iv) disposing of certain assets or businesses. Such remedial actions, which may not be available on favorable terms or at all, could have a material adverse impact on the Company's business. If the Company is not in compliance with the leverage ratio and is unable to obtain an amendment or waiver, such noncompliance may result in an event of default under the Financing Agreement, which could permit acceleration of the outstanding indebtedness under the Financing Agreement and require the Company to repay such indebtedness before the scheduled due date. If an event of default were to occur, the Company might not have sufficient funds available to make the payments required. If the Company is unable to repay amounts owed, the lenders may be entitled to foreclose on and sell substantially all of the Company's assets, which secure its borrowings under the Financing Agreement.

The Company's cash requirements vary depending on factors such as the growth of the business, changes in working capital, capital expenditures, and obligations under the cost efficiency program. Management expects to operate the business and execute its strategic initiatives principally with funds generated from operations, remaining net proceeds from the term loan borrowings under the Financing Agreement, and draw up to a maximum of \$5.0 million under the Financing Agreement's revolving credit facility. 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 no subsequent events required recognition or disclosure in these financial statements.

Significant Accounting Policies - Revenue Recognition

General

The Company commences revenue recognition when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collection is reasonably assured. Generally, the products the Company sells do not require significant production, modification or customization. Installation of the Company's products is generally routine, consists of implementation and configuration and does not have to be performed by the Company.

At the time of a sales transaction, the Company makes an assessment of the collectability of the amount due from the customer. Revenues are recognized only if it is reasonably assured that collection will occur. When making this assessment, the Company considers customer credit-worthiness and historical payment experience. If it is determined from the outset of the arrangement that collection is not reasonably assured, revenues are recognized on a cash basis, provided that all other revenue recognition criteria are satisfied. At the outset of the arrangement, the Company also

assesses whether the fee associated with the order is fixed or determinable and free of contingencies or significant uncertainties. When assessing whether the fee is fixed or determinable, the Company considers the payment terms of the transaction, the Company's collection experience in similar transactions without making concessions, and the Company's involvement, if any, in third-party financing transactions, among other factors. If the fee is not fixed or determinable, revenues are recognized only as payments become due from the customer, provided that all other revenue recognition criteria are met. If a significant portion of the fee is due after the Company's normal payment terms, the Company evaluates whether the Company has sufficient history of successfully collecting past transactions with similar terms without offering concessions. If that collection history

is sufficient, revenue recognition commences, upon delivery of the products, assuming all other revenue recognition criteria are satisfied. If the Company was to make different judgments or assumptions about any of these matters, it could cause a material increase or decrease in the amount of revenues reported in a particular period.

The Company often receives multiple purchase orders or contracts from a single customer or a group of related customers that are evaluated to determine if they are, in effect, part of a single arrangement. In situations when the Company has concluded that two or more orders with the same customer are so closely related that they are, in effect, parts of a single arrangement, the Company accounts for those orders as a single arrangement for revenue recognition purposes. In other circumstances, when the Company has concluded that two or more orders with the same customer are independent buying decisions, such as an earlier purchase of a product and a subsequent purchase of a software upgrade or maintenance contract, the Company accounts for those orders as separate arrangements for revenue recognition purposes.

For many of the Company's products, there has been an ongoing practice of Avid making available at no charge to customers minor feature and compatibility enhancements as well as bug fixes on a when-and-if-available basis (collectively "Software Updates"), for a period of time after initial sales to end users. The implicit obligation to make such Software Updates available to customers over a period of time represents implied post-contract customer support, which is deemed to be a deliverable in each arrangement and is accounted for as a separate element ("Implied Maintenance Release PCS").

Over the course of the last two years, in connection with a strategic initiative to increase support and other recurring revenue streams, the Company has taken a number of steps to eliminate the longstanding practice of providing Implied Maintenance Release PCS for many of its products, including Media Composer, Pro Tools and Sibelius product lines. In the third quarter and fourth quarter of 2015, respectively, the Company concluded that Implied Maintenance Release PCS for its Media Composer and Sibelius product lines had ceased. In the first quarter of 2016, in connection with the release of Cloud Collaboration in Pro Tools version 12.5, which was an undelivered feature that had prevented the Company from recognizing any revenue related to new Pro Tools 12 software sales as it represented a specified upgrade right for which vendor specific objective evidence ("VSOE") of fair value was not available, the Company concluded that Implied Maintenance Release PCS for Pro Tools 12 product lines had also ended. The determination that Pro Tools 12 Implied Maintenance Release PCS had ended was based on management (i) clearly communicating a policy of no longer providing any Software Updates or other support to customers that are not covered under a paid support plan and (ii) implementing robust digital rights management tools to enforce the policy. With the new policy and technology for Pro Tools 12 in place, combined with management's intent to continue to adhere to the policy, management concluded in the first quarter of 2016 that Implied Maintenance Release PCS for Pro Tools 12 transactions no longer exists. As a result of the conclusion that Implied Maintenance Release PCS on Pro Tools 12 has ended, revenue and net income in the first quarter of 2016 increased approximately \$11.1 million, reflecting the recognition of orders received after the launch of Pro Tools 12 that would have qualified for earlier recognition using the residual method of accounting. In addition, the elimination of Implied Maintenance Release PCS also resulted in the accelerated recognition of maintenance and product revenues that were previously being recognized on a ratable basis over a much longer expected period of Implied Maintenance Release PCS rather than the contractual maintenance period. The reduction in the estimated amortization period of transactions being recognized on a ratable basis resulted in an additional \$12.0 million and \$33.7 million of revenue during the three and nine months ended September 30, 2016, respectively.

The Company enters into certain contractual arrangements that have multiple elements, one or more of which may be delivered subsequent to the delivery of other elements. These multiple-deliverable arrangements may include products, support, training, professional services and Implied Maintenance Release PCS. For these multiple-element arrangements, the Company allocates revenue to each deliverable of the arrangement based on the relative selling prices of the deliverables. In such circumstances, the Company first determines the selling price of each deliverable

based on (i) VSOE of fair value if that exists; (ii) third-party evidence of selling price (“TPE”), when VSOE does not exist; or (iii) best estimate of the selling price (“BESP”), when neither VSOE nor TPE exists. Revenue is then allocated to the non-software deliverables as a group and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the selling price hierarchy. The Company’s process for determining BESP for deliverables for which VSOE or TPE does not exist involves significant management judgment. In determining BESP, the Company considers a number of data points, including:

- the pricing established by management when setting prices for deliverables that are intended to be sold on a standalone basis;
- contractually stated prices for deliverables that are intended to be sold on a standalone basis;

the pricing of standalone sales that may not qualify as VSOE of fair value due to limited volumes or variation in prices; and
other pricing factors, such as the geographical region in which the products are sold and expected discounts based on the customer size and type.

In determining a BEBP for Implied Maintenance Release PCS, which the Company does not sell separately, the Company considers (i) the service period for the Implied Maintenance Release PCS, (ii) the differential in value of the Implied Maintenance Release PCS deliverable compared to a full support contract, (iii) the likely list price that would have resulted from the Company's established pricing practices had the deliverable been offered separately, and (iv) the prices a customer would likely be willing to pay.

The Company estimates the service period of Implied Maintenance Release PCS based on the length of time the product version purchased by the customer is planned to be supported with Software Updates. If facts and circumstances indicate that the original service period of Implied Maintenance Release PCS for a product has changed significantly after original revenue recognition has commenced, the Company will modify the remaining estimated service period accordingly and recognize the then-remaining deferred revenue balance over the revised service period.

The Company has established VSOE of fair value for some of the Company's professional services, training and support offerings. The Company's policy for establishing VSOE of fair value consists of evaluating standalone sales to determine if a substantial portion of the transactions fall within a reasonable range. If a sufficient volume of standalone sales exist and the standalone pricing for a substantial portion of the transactions falls within a reasonable range, management concludes that VSOE of fair value exists.

In accordance with ASU No. 2009-14, the Company excludes from the scope of software revenue recognition requirements the Company's sales of tangible products that contain both software and non-software components that function together to deliver the essential functionality of the tangible products. The Company adopted ASU No. 2009-13 and ASU No. 2009-14 prospectively on January 1, 2011 for new and materially modified arrangements originating after December 31, 2010.

Prior to the Company's adoption of ASU No. 2009-14, the Company primarily recognized revenues using the revenue recognition criteria of Accounting Standards Codification, or ASC, Subtopic 985-605, Software-Revenue Recognition. As a result of the Company's adoption of ASU No. 2009-14 on January 1, 2011, a majority of the Company's products are now considered non-software elements under GAAP, which excludes them from the scope of ASC Subtopic 985-605 and includes them within the scope of ASC Topic 605, Revenue Recognition. Because the Company had not been able to establish VSOE of fair value for Implied Maintenance Release PCS, as described further below, substantially all revenue arrangements prior to January 1, 2011 were recognized on a ratable basis over the service period of Implied Maintenance Release PCS. Subsequent to January 1, 2011 and the adoption of ASU No. 2009-14, the Company determines a relative selling price for all elements of the arrangement through the use of BEBP, as VSOE and TPE are typically not available, resulting in revenue recognition upon delivery of arrangement consideration attributable to product revenue, provided all other criteria for revenue recognition are met, and revenue recognition of Implied Maintenance Release PCS and other service and support elements over time as services are rendered.

Revenue Recognition of Non-Software Deliverables

Revenue from products that are considered non-software deliverables is recognized upon delivery of the product to the customer. Products are considered delivered to the customer once they have been shipped and title and risk of loss has been transferred. For most of the Company's product sales, these criteria are met at the time the product is shipped. Revenue from support that is considered a non-software deliverable is initially deferred and is recognized ratably over

the contractual period of the arrangement, which is generally 12 months. Professional services and training services are typically sold to customers on a time and materials basis. Revenue from professional services and training services that are considered non-software deliverables is recognized for these deliverables as services are provided to the customer. Revenue for Implied Maintenance Release PCS that is considered a non-software deliverable is recognized ratably over the service period of Implied Maintenance Release PCS, which ranges from one to eight years.

Revenue Recognition of Software Deliverables

The Company recognizes the following types of elements sold using software revenue recognition guidance: (i) software products and software upgrades, when the software sold in a customer arrangement is more than incidental to the arrangement as a whole and the product does not contain hardware that functions with the software to provide essential functionality, (ii) initial support contracts where the underlying product being supported is considered to be a software deliverable, (iii) support contract renewals, and (iv) professional services and training that relate to deliverables considered to be software deliverables. Because the Company does not have VSOE of the fair value of its software products, the Company is permitted to account for its typical customer arrangements that include multiple elements using the residual method. Under the residual method, the VSOE of fair value of the undelivered elements (which could include support, professional services or training, or any combination thereof) is deferred and the remaining portion of the total arrangement fee is recognized as revenue for the delivered elements. If evidence of the VSOE of fair value of one or more undelivered elements does not exist, revenues are deferred and recognized when delivery of those elements occurs or when VSOE of fair value can be established. VSOE of fair value is typically based on the price charged when the element is sold separately to customers. The Company is unable to use the residual method to recognize revenues for many arrangements that include products that are software deliverables under GAAP since VSOE of fair value does not exist for Implied Maintenance Release PCS elements, which are included in many of the Company's arrangements.

For software products that include Implied Maintenance Release PCS, an element for which VSOE of fair value does not exist, revenue for the entire arrangement fee, which could include combinations of product, professional services, training and support, is recognized ratably as a group over the longest service period of any deliverable in the arrangement, with recognition commencing on the date delivery has occurred for all deliverables in the arrangement (or begins to occur in the case of professional services, training and support). Standalone sales of support contracts are recognized ratably over the service period of the product being supported.

From time to time, the Company offers certain customers free upgrades or specified future products or enhancements. When a software deliverable arrangement contains an Implied Maintenance Release PCS deliverable, revenue recognition of the entire arrangement will only commence when any free upgrades or specified future products or enhancements have been delivered, assuming all other products in the arrangement have been delivered and all services, if any, have commenced.

Recent Accounting Pronouncements to be Adopted

In May, 2014, the FASB issued a final updated standard on revenue recognition. The standard supersedes the most current revenue recognition guidance, including industry-specific guidance. The new revenue recognition guidance becomes effective for the Company on January 1, 2018, and early adoption as of January 1, 2017 is 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.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern. ASU 2014-15 provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. The new standard is effective for the Company beginning January 1, 2017. Early adoption is permitted. The Company is evaluating the potential impact of adopting this standard on its financial statements, as well as timing of its adoption of the standard.

On February 25, 2016, the FASB issued new accounting guidance on leases. Lessees will need to recognize virtually all of their leases on the balance sheet, by recording a right-of-use asset and lease liability. The new guidance becomes effective for the Company on January 1, 2019, and early adoption is permitted upon issuance. The Company is evaluating the potential impact of adopting this standard on its financial statements, as well as the timing of its adoption of the standard.

2. NET 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 common share equivalents outstanding during the period.

The potential common shares that were considered anti-dilutive securities were 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 employees that vest based on performance conditions, market conditions, or a combination of performance and market conditions.

The following table sets forth (in thousands) potential common shares that were considered anti-dilutive securities for the nine months ended September 30, 2016 and 2015.

	September 30, 2016	September 30, 2015
Options	3,939	1,023
Non-vested restricted stock units	687	231
Anti-dilutive potential common shares	4,626	1,254

On June 15, 2015, the Company issued \$125.0 million aggregate principal amount of its 2.00% Convertible Senior Notes due 2020 (the "Notes"). The Notes are convertible into cash, shares of the Company's common stock or a combination of cash and shares of common stock, at the Company's election, based on an initial conversion rate, subject to adjustment (see Note 11). In connection with the offering of the Notes, the Company entered into a capped call transaction with a third party (the "Capped Call") (see Note 11, Long-Term Debt and Credit Agreement). The Company uses the treasury stock method in computing the dilutive impact of the Notes. The Notes are convertible into shares of the Company's common stock but the Company's stock price was less than the conversion price as of September 30, 2016, and, therefore, the Notes are excluded from Diluted EPS. The Capped Call is not reflected in diluted net income per share as it will always be anti-dilutive.

3. ACQUISITION

On June 23, 2015, the Company completed the acquisition of Orad Hi-Tech Systems Ltd. ("Orad"). Orad provides 3D real-time graphics, video servers and related asset management solutions. The acquisition adds applications to Avid's Studio Suite which the Company intends to connect to the Avid MediaCentral Platform.

In allocating the total purchase consideration of \$73.4 million for Orad based on the fair value as of June 23, 2015, the Company recorded \$32.6 million of goodwill, \$37.2 million of identifiable intangibles assets, and \$3.6 million to other net assets. Intangible assets acquired included core and completed technology, customer relationships and trade name.

4. FAIR VALUE MEASUREMENTS

Assets Measured at Fair Value on a Recurring Basis

The Company measures deferred compensation investments on a recurring basis. As of September 30, 2016 and December 31, 2015, the Company's deferred compensation investments 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 money market and mutual funds. Assets valued based on other observable inputs and classified as Level 2 are insurance contracts.

The following tables summarize the Company's deferred compensation investments measured at fair value on a recurring basis (in thousands):

	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)	
September 30, 2016				

Financial assets:

Deferred compensation assets	\$ 2,035	\$ 495	\$ 1,540	\$ —
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	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)	
December 31, 2015				

Financial assets:

Deferred compensation assets	\$ 3,617	\$ 572	\$ 3,045	\$ —
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Financial Instruments Not Recorded at Fair Value

The carrying amounts of the Company's other financial assets and liabilities including cash, accounts receivable, accounts payable and accrued liabilities approximate their respective fair values because of the relatively short period of time between their origination and their expected realization or settlement. As of September 30, 2016, the net carrying amount of the Notes was \$100.1 million, and the fair value of the Notes was approximately \$104.7 million based on open market trading activity, which constitutes a Level 1 input in the fair value hierarchy.

5. INVENTORIES

Inventories consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Raw materials	\$ 10,371	\$ 9,594
Work in process	252	256
Finished goods	45,011	38,223
Total	\$ 55,634	\$ 48,073

As of September 30, 2016 and December 31, 2015, finished goods inventory included \$7.8 million and \$5.3 million, respectively, associated with products shipped to customers and deferred labor costs for arrangements where revenue recognition had not yet commenced.

6. INTANGIBLE ASSETS AND GOODWILL

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 (in thousands):

	September 30, 2016			December 31, 2015		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Completed technologies and patents	\$58,257	\$ (36,969)	\$21,288	\$58,032	\$ (30,902)	\$27,130
Customer relationships	54,753	(50,796)	3,957	54,656	(48,767)	5,889
Trade names	1,346	(1,346)	—	1,346	(1,146)	200
Capitalized software costs	4,911	(4,911)	—	4,911	(4,911)	—
Total	\$119,267	\$ (94,022)	\$25,245	\$118,945	\$ (85,726)	\$33,219

Amortization expense related to all intangible assets in the aggregate was \$2.5 million and \$2.7 million, respectively, for the three months ended September 30, 2016 and 2015 and \$8.0 million and \$3.7 million, respectively, for the nine months ended September 30, 2016 and 2015. The Company expects amortization of acquired intangible assets to be \$2.3 million for the remainder of 2016, \$9.3 million in 2017, \$9.3 million in 2018, and \$4.4 million in 2019.

Goodwill at September 30, 2016 and December 31, 2015 was \$32.6 million, which resulted from the acquisition of Orad in 2015.

7. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consisted of the following (in thousands):

	September 30, December 31,	
	2016	2015
Deferred rent	\$ 5,793	\$ 6,755
Accrued restructuring	1,513	647
Deferred compensation	6,286	7,309
Total	\$ 13,592	\$ 14,711

8. CONTINGENCIES

The Company's industry is characterized by the existence of a large number of patents and frequent claims and litigation regarding patent and other intellectual property rights. The Company is 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. The Company does not believe these matters will have a material adverse effect on the Company's financial position or results of operations. However, the outcome of legal proceedings and claims brought against the Company is subject to significant uncertainty. Therefore, the Company's 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. The Company's results could be materially adversely affected if the Company is accused of, or found to be, infringing third parties' intellectual property rights.

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.

As of September 30, 2016 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

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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 entered a License Agreement with Nexidia Inc., which grants Avid a limited, exclusive, and restricted to the Media Market, non-assignable worldwide, non-sublicensable, license to use media and entertainment technologies and solutions and associated language packs (the "Licensed Software"). In accordance with the terms of the License Agreement, the Company will pay Nexidia a non-refundable initial license fee of \$2.0 million by no later than January 2, 2017. The initial license fee entitles Avid to sell such amounts and numbers of the Licensed Software based on a license fee per license software.

The Company has letters of credit that are used as security deposits in connection with the Company's Burlington, Massachusetts office space and other facilities. In the event of default on the underlying leases, the landlords would, as of September 30, 2016, be eligible to draw against the letters of credit to a maximum of \$2.2 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. Also, the Company has letters of credit totaling \$1.2 million that support its ongoing operations. These letters of credit have various terms and expiration dates during 2016 and beyond, and 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 nine months ended September 30, 2016 and 2015 (in thousands):

	Nine Months Ended September 30,	
	2016	2015
Accrual balance at beginning of year	\$2,234	\$2,792
Accruals for product warranties	1,992	2,429
Costs of warranty claims	(1,872)	(2,747)
Accrual balance at end of period	\$2,354	\$2,474

The warranty accrual is included in the caption "accrued expenses and other current liabilities" in the Company's condensed consolidated balance sheet.

9. RESTRUCTURING COSTS AND ACCRUALS

2016 Restructuring Plan

In February 2016, the Company committed to a restructuring plan that encompasses a series of measures intended to allow the Company to more efficiently operate in a leaner, and more directed cost structure. These include reductions in the Company's workforce, facilities consolidation, transferring certain business processes to lower cost regions, and reducing other third-party services costs.

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During the quarter ended December 31, 2015, the Company recorded restructuring costs of \$5.8 million, which represented an initial elimination of 111 positions worldwide during January and February of 2016. During the quarter ended March 31, 2016, the Company recorded restructuring costs of \$2.8 million, representing the elimination of an additional 63 positions worldwide. During the quarter ended June 30, 2016, the Company recorded additional restructuring costs of \$0.4 million, and recoveries totaling \$0.6 million as a result of severance pay estimate changes primarily for the eliminated positions in Europe. During the quarter ended September 30, 2016, the Company recorded restructuring charges of \$2.4 million related to severance costs for an additional 60 positions eliminated and severance pay estimate adjustments, and \$2.1 million for the partial closure of facilities in Burlington, Massachusetts, which included non-cash amounts of \$1.1 million for fixed asset write-off.

Prior Years' Restructuring Plans

In September 2016, the Company recorded a revision of restructuring costs of \$0.8 million resulting from an update to the sublease assumption related to the Company's Mountain View, California facility that was partially abandoned in 2012.

The accrual balance of \$1.7 million as of September 30, 2016 was related to the closure of part of the Company's Mountain View, California, and Dublin, Ireland facilities under restructuring plans that were made in 2012 and 2008, respectively. No further actions are anticipated under those plans.

Restructuring Summary

The following table sets forth the activity in the restructuring accruals for the nine months ended September 30, 2016 (in thousands):

	Employee- Related	Facilities/Other-Related	Total
Accrual balance as of December 31, 2015	\$ 5,509	\$ 1,671	\$7,180
New restructuring charges – operating expenses	5,536	943	6,479
Revisions of estimated liabilities	(501)	763	262
Non-cash write-offs	—	1,137	1,137
Accretion	—	211	211
Cash payments	(7,053)	(988)	(8,041)
Foreign exchange impact on ending balance	(72)	8	(64)
Accrual balance as of September 30, 2016	\$ 3,419	\$ 3,745	\$7,164

The employee-related accruals as of September 30, 2016 represent severance costs to former employees that will be paid out within twelve months, and are, therefore, included in the caption “accrued expenses and other current liabilities” in the Company's consolidated balance sheets.

The facilities/other-related accruals as of September 30, 2016 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 December 2021 unless the Company is able to negotiate earlier terminations. Of the total facilities/other-related balance, \$1.1 million is included in the caption “accrued expenses and other current liabilities”, \$1.5 million is included in the caption “other long-term liabilities”, and \$1.1 million of fixed assets write-off relating to the partial closure of facilities in Burlington, Massachusetts is reflected in the caption “property and equipment, net” in the Company's condensed consolidated balance sheet as of September 30, 2016.

10. PRODUCT AND GEOGRAPHIC INFORMATION

The Company, through the evaluation of the discrete financial information that is regularly reviewed by the chief operating decision makers (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 nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Video products and solutions net revenues	\$39,182	\$62,851	\$118,252	\$152,798
Audio products and solutions net revenues	24,558	26,094	105,589	92,326
Products and solutions net revenues	63,740	88,945	223,841	245,124
Services net revenues	55,279	48,491	172,794	121,665
Total net revenues	\$119,019	\$137,436	\$396,635	\$366,789

The following table sets forth the Company's revenues by geographic region for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
United States	\$45,982	\$48,146	\$145,384	\$135,225
Other Americas	9,702	10,212	30,674	24,384
Europe, Middle East and Africa	44,524	55,061	159,243	151,314
Asia-Pacific	18,811	24,017	61,334	55,866
Total net revenues	\$119,019	\$137,436	\$396,635	\$366,789

11. LONG TERM DEBT AND CREDIT AGREEMENT

Long term debt consisted of the following (in thousands):

	September 30, December 31,	
	2016	2015
Term Loan, net of unamortized debt issuance costs of \$4,324 at September 30, 2016	\$ 93,175	\$ —
Notes, net of unamortized original issue discount and debt issuance costs of \$24,874 at September 30, 2016 and \$29,050 at December 31, 2015, respectively	100,126	95,950
Credit Agreement	—	5,000
Total debt	193,301	100,950
Less: current portion	5,000	5,000
Total long-term debt	\$ 188,301	\$ 95,950

2.00% Convertible Senior Notes due 2020

On June 15, 2015, the Company issued \$125.0 million aggregate principal amount of its Notes in an offering conducted in accordance with Rule 144A under the Securities Act of 1933. The net proceeds from the offering were \$120.3 million after deducting the offering expenses.

The Notes pay interest semi-annually on June 15 and December 15 of each year, beginning on December 15, 2015, at an annual rate of 2.00% and mature on June 15, 2020 unless earlier converted or repurchased in accordance with their terms prior to such date. Additional interest may be payable upon the occurrence of certain events of default relating to the Company's failure to deliver certain documents or reports to the trustee under the indenture, the Company's failure to timely file any document or report required pursuant to Section 13 or 15(d) of the Exchange Act or if the Notes are not freely

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tradable as of one year after the last date of original issuance of the Notes. The Notes are convertible into cash, shares of the Company's common stock or a combination of cash and shares of common stock, at the Company's election, based on an initial conversion rate, subject to adjustment, of 45.5840 shares per \$1,000 principal amount of Notes, which is equal to an initial conversion price of \$21.94 per share. Prior to December 15, 2019, the Notes are convertible only in the following circumstances: (1) during any calendar quarter commencing after September 30, 2015, if the last reported sale price of the Company's common stock is greater than or equal to 130% of the applicable conversion price for at least 20 trading days during a period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter; (2) during the five business day period after any five consecutive trading day period (the "Measurement Period") in which the trading price per \$1,000 principal amount of notes for each trading day in the Measurement Period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on such trading day; or (3) upon the occurrence of specified corporate transactions. On or after December 15, 2019 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their Notes at any time, regardless of the foregoing circumstances. The Company may not redeem the Notes prior to their maturity, which means that the Company is not required to redeem or retire the Notes periodically.

The Notes are senior unsecured obligations. Upon the occurrence of certain specified fundamental changes, the holders may require the Company to repurchase all or a portion of the Notes for cash at 100% of the principal amount of the Notes being purchased, plus any accrued and unpaid interest.

In accounting for the Notes at issuance, the Company allocated proceeds from the Notes into debt and equity components according to the accounting standards for convertible debt instruments that may be fully or partially settled in cash upon conversion. The initial carrying amount of the debt component, which approximates its fair value, was estimated by using an interest rate for nonconvertible debt, with terms similar to the Notes. The excess of the principal amount of the Notes over the fair value of the debt component was recorded as a debt discount and a corresponding increase in additional paid-in capital. The debt discount is accreted to the carrying value of the Notes over their term as interest expense using the interest method. Upon issuance of the Notes, the Company recorded \$96.7 million as debt and \$28.3 million as additional paid-in capital in stockholders' equity. The effective interest rate used to estimate the fair value of the debt was 7.66%. Total interest expense for the nine months ended September 30, 2016 was \$6.1 million, reflecting the coupon and accretion of the discount.

The Company incurred transaction costs of \$4.7 million relating to the issuance of the Notes. The Company adopted ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs be classified as a reduction in the carrying value of the debt. In accounting for these costs, the Company allocated the costs of the offering between debt and equity in proportion to the fair value of the debt and equity recognized. The transaction costs allocated to the debt component of approximately \$3.6 million were recorded as a direct deduction from the face amount of the Notes and are being amortized as interest expense over the term of the Notes using the interest method. The transaction costs allocated to the equity component of approximately \$1.1 million were recorded as a decrease in additional paid-in capital.

Capped Call Transaction

In connection with the offering of the Notes, on June 9, 2015, the Company entered into a Capped Call derivative transaction with a third party. The Capped Call is expected generally to reduce the potential dilution to the common stock and/or offset any cash payments the Company may be required to make in excess of the principal amount upon conversion of the Notes in the event that the market price per share of the common stock is greater than the strike price of the Capped Call. The Capped Call has a strike price of \$21.94 and a cap price of \$26.00 and is exercisable by the Company when and if the Notes are converted. If, upon conversion of the Notes, the price of the Company's common stock is above the strike price of the Capped Call, the counter-party will deliver shares of common stock

and/or cash with an aggregate value approximately equal to the difference between the price of the common stock at the conversion date (as defined, with a maximum price for purposes of this calculation equal to the cap price) and the strike price, multiplied by the number of shares of common stock related to the portion of the Capped Call being exercised. The Capped Call expires on June 15, 2020. The Company paid \$10.1 million for the Capped Call and recorded the payment as a decrease to additional paid-in capital in 2015.

Credit Facility

On February 26, 2016, the Company entered into the Financing Agreement with the Lenders. Pursuant to the Financing Agreement, the Lenders agreed to provide the Company with (a) a term loan in the aggregate principal amount of \$100.0

million (the “Term Loan”) and (b) a revolving credit facility (the “Credit Facility”) of up to a maximum of \$5.0 million in borrowings outstanding at any time. All outstanding loans under the Financing Agreement will become due and payable on the earlier of February 26, 2021 and the date that is 30 days prior to June 15, 2020 if the \$125.0 million in outstanding principal of the Notes has not been repaid or refinanced by such time. The Company borrowed the full amount of the Term Loan, or \$100.0 million, as of the closing date of the Financing Agreement, and there were no amounts outstanding under the Credit Facility as of September 30, 2016.

Concurrently with the entry into the Financing Agreement, on February 26, 2016 the Company terminated its prior Credit Agreement, dated June 22, 2015, among the Company and certain of its subsidiaries, as borrowers, KeyBank National Association, as Administrative Agent and the other lender parties thereto, and repaid all outstanding borrowings under such agreement. There were no penalties paid by the Company in connection with this termination.

Interest accrues on outstanding borrowings under the Credit Facility and the Term Loan at a rate of either the LIBOR Rate (as defined in the Financing Agreement) plus 6.75% or a Reference Rate (as defined in the Financing Agreement) plus 5.75%, at the option of the Company. The Company must also pay to the Lenders, on a monthly basis, an unused line fee at a rate of 0.5% per annum. The Company may prepay all or any portion of the Term Loan prior to its stated maturity, subject to the payment of certain fees based on the amount repaid. The Term Loan requires quarterly principal payments of \$1.25 million, which commenced in June 2016. The Term Loan also requires the Company to use 50% of excess cash, as defined in the Financing Agreement, to repay outstanding principal of the loans under the Financing Agreement. The Company recorded \$4.6 million of interest expense on the Term Loan for the nine months ended September 30, 2016, of which \$1.9 million related to the quarter ended September 30, 2016.

The Company granted a security interest on substantially all of its assets to secure the obligations under the Credit Facility and the Term Loan.

The Financing Agreement contains customary representations and warranties, covenants, mandatory prepayments, and events of default under which the Company’s payment obligations may be accelerated. The Financing Agreement includes covenants requiring the Company to maintain a Leverage Ratio (defined as the ratio of (a) consolidated total funded indebtedness to (b) consolidated EBITDA) of no greater than 4.35:1.00 for the four quarters ending June 30, 2016, 5.40:1.00 for the four quarters ending September 30, 2016, 4.20:1.00 for the four quarters ending December 31, 2016 and thereafter declining over time from 3.50:1.00 to 2.50:1.00. The Financing Agreement also restricts the Company from making capital expenditures in excess of \$20 million in any fiscal year. As of September 30, 2016 the Company was in compliance with these covenants.

The Financing Agreement contains restrictive covenants that are customary for an agreement of this kind, including, for example, covenants that restrict the Company from incurring additional indebtedness, granting liens, making investments and restricted payments, making acquisitions, paying dividends and engaging in transactions with affiliates.

12. STOCKHOLDERS' EQUITY

Stock-Based Compensation

Information with respect to option shares granted under all the Company's stock incentive plans for the nine months ended September 30, 2016 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 as of January 1, 2016	4,345,334	—	4,345,334	\$10.68		
Exercised	(787,867)	—	(787,867)	\$7.67		
Forfeited or canceled	(655,602)	—	(655,602)	\$15.28		
Options outstanding as of September 30, 2016	2,901,865	—	2,901,865	\$10.46	3.26	\$600
Options vested as of September 30, 2016 or expected to vest			2,901,865	\$10.46	3.25	\$600
Options exercisable as of September 30, 2016			2,662,985	\$10.72	3.14	\$498

Information with respect to the Company's non-vested restricted stock units for the nine months ended September 30, 2016 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 as of January 1, 2016	905,934	360,074	1,266,008	\$9.97		
Granted	916,972	489,482	1,406,454	\$6.84		
Vested	(397,936)	—	(397,936)	\$11.95		
Forfeited	(257,077)	(155,719)	(412,796)	\$7.93		
Non-vested as of September 30, 2016	1,167,893	693,837	1,861,730	\$7.64	0.86	\$14,764
Expected to vest			1,589,999	\$7.66	0.86	\$12,609

Stock-based compensation was included in the following captions in the Company's condensed consolidated statements of operations for the nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	2016	2015	2016	2015
Cost of products revenues	\$12	\$40	\$43	\$175
Cost of services revenues	145	142	445	476
Research and development expenses	73	73	222	225
Marketing and selling expenses	547	529	1,508	1,902
General and administrative expenses	951	1,603	3,898	4,953
	\$1,728	\$2,387	\$6,116	\$7,731

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

EXECUTIVE OVERVIEW

Business Overview

We provide an open, integrated, and comprehensive technology platform, along with applications and services that enable the creation, distribution, 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, as well as aspiring professionals. Projects produced using our products include feature films, television programming, live events, news broadcasts, commercials, music, video and other digital media content.

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. We have been honored over time for our technological innovation with 14 Emmy Awards, one Grammy Award, two Oscars and the first ever America Cinema Editors Technical Excellence Award. Our solutions were used in all 2016 Oscar nominated films for Best Picture, Best Film Editing, Best Sound Editing, Best Sound Mixing and Best Original Score. Our audio solutions were also used in all 2016 Grammy nominated recordings for Best Album of The Year, Best Record of the Year and Best Song of the Year. Our new NEXIS solution, the media industry's first and only software defined storage platform, was announced at the National Association of Broadcasters conference in April 2016, earning the Best of Show award.

Operations Overview

Our strategy is built on three pillars, Avid Everywhere, The Avid Advantage and the Avid Customer Association ("ACA"). Avid Everywhere is our strategic vision for connecting creative professionals and media organizations with their audiences in a more powerful, efficient, collaborative, and profitable way. Central to the Avid Everywhere vision is the Avid MediaCentral Platform, an open, extensible, and customizable foundation that streamlines and simplifies workflows by tightly integrating all Avid or third party products and services that run on top of it. The platform provides secure and protected access, which enables the creation and delivery of content faster and easier through 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 Advantage complements Avid Everywhere by offering a new standard in service, support and education to enable our customers to derive more efficiency from their Avid investment. Finally, the ACA is an association of dedicated media community visionaries, thought leaders and users designed to provide essential strategic leadership to the media industry, facilitate collaboration between Avid and key industry leaders and visionaries, and deepen relationships between our customers and us.

Another key element of our strategy is our transition to a subscription or recurring revenue based model. In 2014 we began offering subscription based licensing options for some of our products and solutions. These licensing options offer choice in pricing and deployment to suit our customers' needs and are expected to increase recurring revenue on a

longer term basis. However, during our transition to a recurring revenue model, we expect that our revenue, deferred revenue, and cash flow from operations will be adversely affected as an increasing portion of our total revenue is recognized ratably rather than up front, and as new product offerings are sold at a wider variety of price points.

As a complement to our core strategy, we continue to review and implement programs throughout the Company to reduce costs, increase operational efficiencies, align talent and enhance our business, including the cost efficiency program announced in February 2016. The cost efficiency program encompasses a series of measures intended to allow us to more efficiently operate in a leaner, and more directed cost structure. These measures include reductions in our workforce, facilities consolidation, transferring certain business processes to lower cost regions, and reducing other third-party services costs. In connection with this cost efficiency program, we have incurred \$14.5 million of the total expected incremental cash expenditures, approximately

\$25 million, relating to termination benefits, facility costs, employee overlap expenses and related actions. We anticipate that the cost efficiency program will be substantially complete by the end of the second quarter of 2017 and will result in annualized costs savings of appropriately \$76 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our condensed 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 and estimates 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 and estimates are critical because they most significantly affect the portrayal of our financial condition and results of operations and involve our most complex and subjective estimates and judgments. A discussion of our critical accounting policies and estimates may be found in our Annual Report on Form 10-K for the year ended December 31, 2015 in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Critical Accounting Policies and Estimates" and below. 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.

Revenue Recognition

General

We commence revenue recognition when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collection is reasonably assured. Generally, the products we sell do not require significant production, modification or customization. Installation of our products is generally routine, consists of implementation and configuration and does not have to be performed by us.

At the time of a sales transaction, we make an assessment of the collectability of the amount due from the customer. Revenues are recognized only if it is reasonably assured that collection will occur. When making this assessment, we consider customer credit-worthiness and historical payment experience. If it is determined from the outset of the arrangement that collection is not reasonably assured, revenues are recognized on a cash basis, provided that all other revenue recognition criteria are satisfied. At the outset of the arrangement, we also assess whether the fee associated with the order is fixed or determinable and free of contingencies or significant uncertainties. When assessing whether the fee is fixed or determinable, we consider the payment terms of the transaction, our collection experience in similar transactions without making concessions, and our involvement, if any, in third-party financing transactions, among other factors. If the fee is not fixed or determinable, revenues are recognized only as payments become due from the customer, provided that all other revenue recognition criteria are met. If a significant portion of the fee is due after our normal payment terms, we evaluate whether we have sufficient history of successfully collecting past transactions with similar terms without offering concessions. If that collection history is sufficient, revenue recognition commences, upon delivery of the products, assuming all other revenue recognition criteria are satisfied. If we were to make different judgments or assumptions about any of these matters, it could cause a material increase or decrease in the amount of revenues reported in a particular period.

We often receive multiple purchase orders or contracts from a single customer or a group of related customers that are evaluated to determine if they are, in effect, part of a single arrangement. In situations when we have concluded that two or more orders with the same customer are so closely related that they are, in effect, parts of a single arrangement, we account for those orders as a single arrangement for revenue recognition purposes. In other circumstances, when we have concluded that two or more orders with the same customer are independent buying decisions, such as an earlier purchase of a product and a subsequent purchase of a software upgrade or maintenance contract, we account for those orders as separate arrangements for revenue recognition purposes.

For many of our products, there has been an ongoing practice of Avid making available at no charge to customers minor feature and compatibility enhancements as well as bug fixes on a when-and-if-available basis (collectively “Software Updates”), for a period of time after initial sales to end users. The implicit obligation to make such Software Updates available to customers over a period of time represents implied post-contract customer support, which is deemed to be a deliverable in each arrangement and is accounted for as a separate element (“Implied Maintenance Release PCS”).

Over the course of the last two years, in connection with a strategic initiative to increase support and other recurring revenue streams, we have taken a number of steps to eliminate the longstanding practice of providing Implied Maintenance Release PCS for many of our products, including our Media Composer, Pro Tools and Sibelius product lines. In the third quarter and fourth quarter of 2015, respectively, we concluded that Implied Maintenance Release PCS for our Media Composer and Sibelius product lines had ceased. In the first quarter of 2016, in connection with the release of Cloud Collaboration in Pro Tools version 12.5, which was an undelivered feature that had prevented us from recognizing any revenue related to new Pro Tools 12 software sales as it represented a specified upgrade right for which vendor specific objective evidence (“VSOE”) of fair value was not available, we concluded that Implied Maintenance Release PCS for our Pro Tools 12 product lines had also ended. Our determination that Pro Tools 12 Implied Maintenance Release PCS had ended was based on management (i) clearly communicating a policy of no longer providing any Software Updates or other support to customers that are not covered under a paid support plan and (ii) implementing robust digital rights management tools to enforce the policy. With the new policy and technology for Pro Tools 12 in place, combined with management’s intent to continue to adhere to the policy, management concluded in the first quarter of 2016 that Implied Maintenance Release PCS for Pro Tools 12 transactions no longer exists. As a result of the conclusion that Implied Maintenance Release PCS on Pro Tools 12 has ended, revenue and net income in the first quarter of 2016 increased approximately \$11.1 million, reflecting the recognition of orders received after the launch of Pro Tools 12 that would have qualified for earlier recognition using the residual method of accounting. In addition, the elimination of Implied Maintenance Release PCS also resulted in the accelerated recognition of maintenance and product revenues that were previously being recognized on a ratable basis over a much longer expected period of Implied Maintenance Release PCS rather than the contractual maintenance period, the reduction in the estimated amortization period of transactions being recognized on a ratable basis resulted in an additional \$12.0 million and \$33.7 million of revenue during the three and nine months ended September 30, 2016.

Management will continue to evaluate the judgment of whether Implied Maintenance Release PCS exists on each product line and version. Since the remaining products that contain Implied Maintenance Release PCS largely consist of products that fall under the non-software revenue recognition guidance, where management defers a small portion of revenue based on the best estimated selling price of Implied Maintenance Release PCS rather than the entire order value as required for transactions that fall under software revenue recognition guidance, any further determinations that Implied Maintenance Release PCS no longer exists for other product lines will be unlikely to result in a significant impact to the financial statements in any future periods.

As a result of the conclusion that Implied Maintenance Release PCS no longer exists for Pro Tools 12, prospective revenue recognition on new product orders will be recognized upfront, assuming all other revenue recognition criteria are met and VSOE of fair value exists for all undelivered elements. The cessation of Implied Maintenance Release PCS for Pro Tools and other products subject to software revenue recognition guidance, in addition to the initial impact of immediately recognizing revenue related to orders that would have qualified for earlier recognition using the residual method of accounting, will also result in increased revenue throughout 2016 as the elimination of Implied Maintenance Release PCS also results in the accelerated recognition of preexisting maintenance and product revenues that still do not qualify for the residual method of accounting but are now being recognized on an accelerated basis over a shorter remaining contractual maintenance period as compared to (i) the previous model of being recognized over a longer expected period of Implied Maintenance Release PCS and (ii) the prospective model of recognizing

revenue ratably over a longer original contractual maintenance support period. As a result of the compressed recognition period for these prior transactions in 2016 and longer recognition of the respective renewals, we expect significant decreases in revenues related to impacted product lines in 2017 as recognition from old contracts is completed and new contracts are recognized over a traditional maintenance period.

We enter into certain contractual arrangements that have multiple elements, one or more of which may be delivered subsequent to the delivery of other elements. These multiple-deliverable arrangements may include products, support, training, professional services and Implied Maintenance Release PCS. For these multiple-element arrangements, we allocate revenue to each deliverable of the arrangement based on the relative selling prices of the deliverables. In such circumstances, we first determine the selling price of each deliverable based on (i) VSOE of fair value if that exists; (ii) third-party evidence of selling price or TPE, when VSOE does not exist; or (iii) best estimate of the selling price or BESP, when neither VSOE nor TPE exists. Revenue is then allocated to the non-software deliverables as a group and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the selling price hierarchy. Our process for determining BESP for

deliverables for which VSOE or TPE does not exist involves significant management judgment. In determining BESP, we consider a number of data points, including:

- the pricing established by management when setting prices for deliverables that are intended to be sold on a standalone basis;
- contractually stated prices for deliverables that are intended to be sold on a standalone basis;
- the pricing of standalone sales that may not qualify as VSOE of fair value due to limited volumes or variation in prices; and
- other pricing factors, such as the geographical region in which the products are sold and expected discounts based on the customer size and type.

In determining a BESP for Implied Maintenance Release PCS, which we do not sell separately, we consider (i) the service period for the Implied Maintenance Release PCS, (ii) the differential in value of the Implied Maintenance Release PCS deliverable compared to a full support contract, (iii) the likely list price that would have resulted from our established pricing practices had the deliverable been offered separately, and (iv) the prices a customer would likely be willing to pay.

We estimate the service period of Implied Maintenance Release PCS based on the length of time the product version purchased by the customer is planned to be supported with Software Updates. If facts and circumstances indicate that the original service period of Implied Maintenance Release PCS for a product has changed significantly after original revenue recognition has commenced, we will modify the remaining estimated service period accordingly and recognize the then-remaining deferred revenue balance over the revised service period.

We have established VSOE of fair value for all professional services and training and for some of our support offerings. Our policy for establishing VSOE of fair value consists of evaluating standalone sales to determine if a substantial portion of the transactions fall within a reasonable range. If a sufficient volume of standalone sales exist and the standalone pricing for a substantial portion of the transactions falls within a reasonable range, management concludes that VSOE of fair value exists.

In accordance with ASU No. 2009-14, we exclude from the scope of software revenue recognition requirements our sales of tangible products that contain both software and non-software components that function together to deliver the essential functionality of the tangible products. We adopted ASU No. 2009-13 and ASU No. 2009-14 prospectively on January 1, 2011 for new and materially modified arrangements originating after December 31, 2010.

Prior to our adoption of ASU No. 2009-14, we primarily recognized revenues using the revenue recognition criteria of Accounting Standards Codification, or ASC, Subtopic 985-605, Software-Revenue Recognition. As a result of our adoption of ASU No. 2009-14 on January 1, 2011, a majority of our products are now considered non-software elements under GAAP, which excludes them from the scope of ASC Subtopic 985-605 and includes them within the scope of ASC Topic 605, Revenue Recognition. Because we had not been able to establish VSOE of fair value for Implied Maintenance Release PCS, as described further below, substantially all revenue arrangements prior to January 1, 2011 were recognized on a ratable basis over the service period of Implied Maintenance Release PCS. Subsequent to January 1, 2011 and the adoption of ASU No. 2009-14, we determine a relative selling price for all elements of the arrangement through the use of BESP, as VSOE and TPE are typically not available, resulting in revenue recognition upon delivery of arrangement consideration attributable to product revenue, provided all other criteria for revenue recognition are met, and revenue recognition of Implied Maintenance Release PCS and other service and support elements over time as services are rendered.

Revenue Recognition of Non-Software Deliverables

Revenue from products that are considered non-software deliverables is recognized upon delivery of the product to the customer. Products are considered delivered to the customer once they have been shipped and title and risk of loss has been transferred. For most of our product sales, these criteria are met at the time the product is shipped. Revenue from support that is considered a non-software deliverable is initially deferred and is recognized ratably over the contractual period of the arrangement, which is generally twelve months. Professional services and training services are typically sold to customers on a time and materials basis. Revenue from professional services and training services that are considered non-software deliverables is recognized for these deliverables as services are provided to the customer. Revenue for Implied Maintenance Release PCS that is considered a non-software deliverable is recognized ratably over the service period of Implied Maintenance Release PCS, which ranges from 1 to 8 years.

Revenue Recognition of Software Deliverables

We recognize the following types of elements sold using software revenue recognition guidance: (i) software products and software upgrades, when the software sold in a customer arrangement is more than incidental to the arrangement as a whole and the product does not contain hardware that functions with the software to provide essential functionality, (ii) initial support contracts where the underlying product being supported is considered to be a software deliverable, (iii) support contract renewals, and (iv) professional services and training that relate to deliverables considered to be software deliverables. Because we do not have VSOE of the fair value of our software products, we are permitted to account for our typical customer arrangements that include multiple elements using the residual method. Under the residual method, the VSOE of fair value of the undelivered elements (which could include support, professional services or training, or any combination thereof) is deferred and the remaining portion of the total arrangement fee is recognized as revenue for the delivered elements. If evidence of the VSOE of fair value of one or more undelivered elements does not exist, revenues are deferred and recognized when delivery of those elements occurs or when VSOE of fair value can be established. VSOE of fair value is typically based on the price charged when the element is sold separately to customers. We are unable to use the residual method to recognize revenues for most arrangements that include products that are software deliverables under GAAP since VSOE of fair value does not exist for Implied Maintenance Release PCS elements, which are included in many of our arrangements.

For software products that include Implied Maintenance Release PCS, an element for which VSOE of fair value does not exist, revenue for the entire arrangement fee, which could include combinations of product, professional services, training and support, is recognized ratably as a group over the longest service period of any deliverable in the arrangement, with recognition commencing on the date delivery has occurred for all deliverables in the arrangement (or begins to occur in the case of professional services, training and support). Standalone sales of support contracts are recognized ratably over the service period of the product being supported.

From time to time, we offer certain customers free upgrades or specified future products or enhancements. When a software deliverable arrangement contains an Implied Maintenance Release PCS deliverable, revenue recognition of the entire arrangement will only commence when any free upgrades or specified future products or enhancements have been delivered, assuming all other products in the arrangement have been delivered and all services, if any, have commenced.

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 nine months ended September 30, 2016 and 2015:

	Three Months		Nine Months	
	Ended September		Ended September	
	30,		30,	
	2016	2015	2016	2015
Net revenues:				
Product	53.6 %	64.7 %	56.4 %	66.8 %
Services	46.4 %	35.3 %	43.6 %	33.2 %
Total net revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues	36.7 %	36.1 %	33.6 %	38.3 %
Gross margin	63.3 %	63.9 %	66.4 %	61.7 %
Operating expenses:				
Research and development	16.8 %	18.4 %	15.8 %	19.6 %
Marketing and selling	22.9 %	23.0 %	22.4 %	25.2 %
General and administrative	11.6 %	11.5 %	12.2 %	14.4 %
Amortization of intangible assets	0.5 %	0.6 %	0.5 %	0.4 %
Restructuring costs, net	4.5 %	— %	2.0 %	0.1 %
Total operating expenses	56.3 %	53.5 %	52.9 %	59.7 %
Operating income	7.0 %	10.4 %	13.5 %	2.0 %
Interest and other expense, net	(4.0)%	(1.8)%	(3.5)%	(1.3)%
Income before income taxes	3.0 %	8.6 %	10.0 %	0.7 %
(Benefit from) provision for income taxes	(4.5)%	0.6 %	(1.0)%	(1.2)%
Net income	7.5 %	8.0 %	11.0 %	1.9 %

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. We commonly sell large, complex solutions to our customers that, due to their strategic nature, have long lead times where the timing of order execution and fulfillment can be difficult to predict. In addition, the rapid evolution of the media industry is changing our customers' needs, businesses and revenue models which is influencing their short-term and long-term purchasing decisions. As a result these factors that our customers' are facing, 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 from quarter to quarter and cause significant volatility in our quarterly operating results. See the risk factors discussed in Part I - Item 1A under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015.

Net Revenues for the Three Months Ended September 30, 2016 and 2015

(dollars in thousands)

	2016	Change	2015
	Net	\$	Net
	Revenues	%	Revenues
Video products and solutions	\$ 39,182	\$(23,669) (37.7)%	\$ 62,851
Audio products and solutions	24,558	(1,536) (5.9)%	26,094
Products and solutions	63,740	(25,205) (28.3)%	88,945

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Services	55,279	6,788	14.0%	48,491
Total net revenues	\$ 119,019	\$(18,417)	(13.4)%	\$ 137,436

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Net Revenues for the Nine Months Ended September 30, 2016 and 2015
(dollars in thousands)

	2016	Change		2015
	Net	\$	%	Net
	Revenues			Revenues
Video products and solutions	\$ 118,252	\$(34,546)	(22.6)%	\$ 152,798
Audio products and solutions	105,589	13,263	14.4%	92,326
Products and solutions	223,841	(21,283)	(8.7)%	245,124
Services	172,794	51,129	42.0%	121,665
Total net revenues	\$ 396,635	\$ 29,846	8.1%	\$ 366,789

The following table sets forth the percentage of our net revenues attributable to geographic regions for the three and nine months ended September 30, 2016 and 2015:

	Three		Nine	
	Months	Months	Months	Months
	Ended	Ended	Ended	Ended
	September	September	September	September
	30,	30,	30,	30,
	2016	2015	2016	2015
United States	39%	35%	37%	37%
Other Americas	8%	7%	8%	7%
Europe, Middle East and Africa	37%	40%	40%	41%
Asia-Pacific	16%	17%	15%	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 \$23.7 million, or 37.7%, for the three months ended September 30, 2016, and decreased \$34.5 million, or 22.6%, for the nine months ended September 30, 2016, compared to the same periods in 2015. The decrease for the three and nine months ended September 30, 2016 was primarily due to delayed purchasing decisions of shared storage solutions by customers anticipating our next-generation shared storage product. Video products and solutions revenues for the three and nine months ended September 30, 2015 were also higher due to the determination during the three months ended September 30, 2015 that Implied Maintenance Release PCS on Media Composer 8.0 had ended which resulted in increased product revenue for the prior period reflecting the recognition of older orders that then qualified for the residual method of accounting. Also contributing to the decrease in revenues were more volatile market conditions in the Tier 1 enterprise space, particularly in Europe, and the impact of lower amortization of deferred revenues attributable to transactions executed on or before December 31, 2010. As a result of our adoption of ASU No. 2009-13 and ASU No. 2009-14 on January 1, 2011, many of our product orders now qualify for upfront revenue recognition; however, prior to adoption of this accounting guidance, the same orders required ratable recognition over periods of up to eight years. Deferred revenue 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.

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 \$1.5 million, or 5.9%, for the three months ended September 30, 2016, and increased \$13.3 million, or 14.4%, for the

nine months ended September 30, 2016, compared to the same periods in 2015. The decrease for the three months ended September 30, 2016 was primarily due to weaker sales of our Pro Tools HD systems. The increase in audio revenues for the nine months ended September 30, 2016 was primarily a result of accelerated revenue recognition of Pro Tools 12 due to the determination during the three months ended March 31, 2016 that Implied Maintenance Release PCS on Pro Tools 12 no longer exists. The cessation of Implied Maintenance Release PCS for Pro Tools resulted in the recognition of orders received in 2015 that would have qualified for earlier recognition using the residual method of accounting.

Services Revenues

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Services revenues are derived primarily from maintenance contracts, as well as professional services and training. Services revenues increased \$6.8 million, or 14.0%, for the three months ended September 30, 2016, and increased \$51 million, or 42.0%, for the nine months ended September 30, 2016, compared to the same periods in 2015. The increase for the three and nine months ended September 30, 2016 was primarily the result of the determination that Implied Maintenance Release PCS on Pro Tools 12 no longer exists, which results in (i) accelerated revenue recognition of existing maintenance contracts that were previously being recognized over a longer expected period of Implied Maintenance Release PCS rather than the contractual maintenance period and (ii) increasing conversion rates of new maintenance contracts into revenue, since new maintenance contracts are now recognized over their contractual term rather than a much longer period of Implied Maintenance Release PCS. The increases were partially offset by the previously discussed lower amortization of deferred revenues attributable to transactions executed on or before December 31, 2010.

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 and Gross Profit for the Three Months Ended

September 30, 2016 and 2015

(dollars in thousands)

	2016	Change		2015
	Costs	\$	%	Costs
Products	\$26,793	\$(5,463)	(16.9)%	\$32,256
Services	14,885	(531)	(3.4)%	15,416
Amortization of intangible assets	1,950	—	—%	1,950
Total cost of revenues	\$43,628	\$(5,994)	(12.1)%	\$49,622
Gross profit	\$75,391	\$(12,423)	(14.1)%	\$87,814

Costs of Revenues and Gross Profit for the Nine Months Ended September 30, 2016 and 2015

(dollars in thousands)

	2016	Change		2015
	Costs	\$	%	Costs
Products	\$82,405	\$(10,011)	(10.8)%	\$92,416
Services	45,126	(928)	(2.0)%	46,054
Amortization of intangible assets	5,850	3,737	176.9%	2,113
Total cost of revenues	\$133,381	\$(7,202)	(5.1)%	\$140,583

Gross profit	263,254	\$37,048	16.4%	226,206
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Gross Margin Percentage

Gross margin percentage, which is net revenues less costs of revenues divided by net 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. See the risk factors discussed in Part I - Item 1A under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015. Our total gross margin percentage for the three months ended September 30, 2016 decreased to 63.3% from 63.9% for the same period in 2015. Our total gross margin percentage for the nine months ended September 30, 2016 increased 4.7% from 61.7% for the same period in 2015. The decrease for the three months ended September 30, 2016 is due to the decreased revenue from our video products, which was partially offset by our programs to reduce costs and increase operational efficiencies. The increase for the nine months ended September 30, 2016 was primarily the result of revenue recognized from the ending of Implied Maintenance Release PCS on Pro Tools 12, as discussed above, as well as the effects of our cost efficiency program.

Gross Margin % for the Three Months Ended
September 30, 2016 and 2015

	2016 Gross Margin %	Change in Gross Margin %	2015 Gross Margin %
Products	58.0%	(5.7)%	63.7%
Services	73.1%	4.9%	68.2%
Total	63.3%	(0.6)%	63.9%

Gross Margin % for the Nine Months Ended
September 30, 2016 and 2015

	2016 Gross Margin %	Increase in Gross Margin %	2015 Gross Margin %
Products	63.2%	0.9%	62.3%
Services	73.9%	11.8%	62.1%
Total	66.4%	4.7%	61.7%

Operating Expenses and Operating Income

Operating Expenses and Operating Income for the Three Months Ended
September 30, 2016 and 2015

(dollars in thousands)

	2016 Expenses	Change \$ %	2015 Expenses
Research and development	\$ 19,953	\$(5,272) (20.9)%	\$ 25,225
Marketing and selling	27,231	(4,333) (13.7)%	31,564
General and administrative	13,822	(2,012) (12.7)%	15,834
Amortization of intangible assets	567	(219) (27.9)%	786
Restructuring costs, net	5,314	5,314 100.0%	—
Total operating expenses	\$ 66,887	\$(6,522) (8.9)%	\$ 73,409
Operating income	\$ 8,504	\$(5,901) (41.0)%	\$ 14,405

Operating Expenses and Operating Income for the Nine Months Ended
September 30, 2016 and 2015
(dollars in thousands)

	2016	Change		2015
	Expenses \$	\$	%	Expenses
Research and development	\$62,791	\$(8,917)	(12.4)%	\$71,708
Marketing and selling	89,027	(3,393)	(3.7)%	92,420
General and administrative	48,359	(4,287)	(8.1)%	52,646
Amortization of intangible assets	2,135	567	36.2%	1,568
Restructuring costs, net	7,878	7,339	1,361.6%	539
Total operating expenses	\$210,190	\$(8,691)	(4.0)%	\$218,881
Operating income	\$53,064	\$45,739	624.4%	\$7,325

Research and Development Expenses

Research and development (“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 \$5.3 million, or 20.9%, for the three months ended September 30, 2016, and decreased \$8.9 million, or 12.4%, for the nine months ended September 30, 2016, compared to the same periods in 2015. The table below provides further details regarding the changes in components of R&D expense.

Change in R&D Expenses for the Three Months Ended September 30,
2016 and 2015
(dollars in thousands)

	2016 Decrease From 2015	
	\$	%
Personnel-related	\$(2,495)	(17.8)%
Computer hardware and supplies	(1,607)	(87.2)%
Consulting and outside services	(945)	(21.1)%
Facilities and information technology	(276)	(6.3)%
Other	51	10.3%
Total research and development expenses decrease	\$(5,272)	(20.9)%

Change in R&D Expenses for the Nine Months Ended September 30,
2016 and 2015
(dollars in thousands)

	2016 Decrease From 2015	
	\$	%
Computer hardware and supplies	\$(3,380)	(71.4)%
Personnel-related	(3,145)	(8.0)%
Consulting and outside services	(1,959)	(15.1)%
Facilities and information technology	(440)	(3.5)%
Other	7	0.4%
Total research and development expenses decrease	\$(8,917)	(12.4)%

The decreases in computer hardware and supplies and consulting and outside services expenses for the three and nine months ended September 30, 2016, compared to the same periods in 2015, were primarily due to the timing of certain development

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projects as we develop new products and solutions consistent with our Avid Everywhere strategic vision. The computer hardware and supplies expenses for the three and nine months ended September 30, 2015 were also higher due to the development of VENUE | S6L. The decrease in personnel-related expenses for the three and nine months ended September 30, 2016, compared to the same periods in 2015, was primarily the result of our cost efficiency program.

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; web design costs and facilities costs. Marketing and selling expenses decreased \$4.3 million, or 13.7%, for the three months ended September 30, 2016, and decreased \$3.4 million, or 3.7%, for the nine months ended September 30, 2016, compared to the same periods in 2015. The table below provides further details regarding the changes in components of marketing and selling expense.

Change in Marketing and Selling Expenses for the Three Months Ended September 30, 2016 and 2015 (dollars in thousands)

	2016 Decrease From 2015	
	\$	%
Personnel-related	\$(5,384)	(29.1)%
Facilities and information technology infrastructure	872	16.0%
Foreign exchange gains	476	628.9%
Other	(297)	(3.9)%
Total marketing and selling expenses decrease	\$(4,333)	(13.7)%

Change in Marketing and Selling Expenses for the Nine Months Ended September 30, 2016 and 2015 (dollars in thousands)

	2016 Decrease From 2015	
	\$	%
Personnel-related	\$(8,188)	(15.7)%
Facilities and information technology infrastructure	2,846	19.9%
Foreign exchange losses	2,311	466.6%
Other	(362)	(1.4)%
Total marketing and selling expenses decrease	\$(3,393)	(3.7)%

The decrease in personnel-related expenses for the three and nine months ended September 30, 2016, compared to the same periods in 2015, was primarily the result of our cost efficiency program. The increase in facilities and information technology expenses for the three and nine months ended September 30, 2016, compared to the same periods in 2015, was primarily the result of more usage of information technology in 2016. During the nine months ended September 30, 2016, net foreign exchange losses (specifically, resulting from foreign currency denominated transactions and the revaluation of foreign currency denominated assets and liabilities), which are included in marketing and selling expenses, were \$1.8 million, compared to gains of \$(0.5) million during the comparable period in 2015. During the three months ended September 30, 2016, net foreign exchange gains were \$(0.6) million, compared to gains of \$(0.1) million during the comparable period in 2015.

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 decreased \$2.0 million, or 12.7%, for the three months ended September 30, 2016, and decreased \$4.3 million, or 8.1%, for the nine months ended September 30, 2016, compared to the same

periods in 2015. The table below provides further details regarding the changes in components of general and administrative expense.

Change in General and Administrative Expenses for the Three Months Ended September 30, 2016 and 2015

(dollars in thousands)

	2016 Decrease From 2015	
	\$	%
Acquisition and related integration	\$(1,946)	(99.3)%
Consulting and outside services	(861)	(19.7)%
Personnel-related	190	3.1 %
Facilities and information technology	147	6.3 %
Other	458	41.2 %
Total general and administrative expenses decrease	\$(2,012)	(12.7)%

Change in General and Administrative Expenses for the Nine Months Ended September 30, 2016 and 2015

(dollars in thousands)

	2016 Decrease From 2015	
	\$	%
Acquisition and related integration	\$(6,993)	(81.2)%
Consulting and outside services	978	7.4 %
Personnel-related	861	4.3 %
Facilities and information technology	446	6.3 %
Other	421	12.0 %
Total general and administrative expenses decrease	\$(4,287)	(8.1)%

The decrease in acquisition and related integration expenses for the three and nine months ended September 30, 2016 was primarily the result of more outside professional and consulting services used during the same periods in 2015 when we actively engaged in acquisition related activities. The increase in consulting and outside services expenses for the nine months ended September 30, 2016, compared to the same period in 2015, was primarily due to more corporate strategy and investor relations related activities during the first half of 2016. The decrease in consulting and outside services expenses for the three months ended September 30, 2016, compared to the same period in 2015, was primarily due to less legal and audit related expenses. The increase in personnel-related expenses for the nine months ended September 30, 2016, compared to the same period in 2015, was primarily due to the timing of the variable incentive-based compensation accruals consistent with our incentive compensation plan.

(Benefit from) provision for Income Taxes

(Benefit from) provision for Income Taxes for the Three Months Ended September 30, 2016 and 2015

(dollars in thousands)

	2016 Benefit	Change \$ %	2015 Provision
(Benefit from) provision for income taxes	\$(5,321)	\$(6,089) (792.8)%	\$ 768

Benefit from Income Taxes for the Nine Months Ended
September 30, 2016 and 2015
(dollars in thousands)

	2016	Change	2015
	Benefit	\$ %	Benefit
Benefit from income taxes	\$(3,983)	\$238 (5.6)%	\$(4,221)

We had a tax benefit of (10.2)% and (159.6)%, respectively, as a percentage of income before tax for the nine months ended September 30, 2016 and 2015. The benefit from income taxes for the nine month period ended September 30, 2016 was primarily due to a change in our uncertain tax position related to the foreign tax implications arising from changes in revenue recognition. The amount of the benefit included in the three and nine month periods was \$5.2 million and \$3.2 million, respectively. The portion of the benefit that related to the 2016 tax year, \$2.0 million, was recorded as a component of the effective tax rate and the portion that related to prior years, \$3.2 million, was recorded discretely. The year to date benefit at September 30, 2016 also includes current foreign taxes of \$1.4 million offset primarily by a deferred tax benefit associated with intangible amortization of \$2.1 million.

During the nine months ended September 30, 2015, a benefit of \$6.5 million was recorded as a discrete item resulting from the creation of a deferred tax liability associated with the portion of the convertible note offering that was classified as equity. While GAAP requires the offset of the deferred tax liability to be recorded in additional paid in capital, consistent with the equity portion of the convertible notes, the creation of the deferred tax liability also necessitated the release of a valuation allowance against deferred tax assets in an equal amount which, under GAAP, is required to be reflected as an income tax benefit in the current period due to our taxable losses in the US for the nine months ended September 30, 2015. The benefit was partially offset primarily by taxes on increased foreign profits including those accrued in connection with the uncertain tax position related to the foreign tax implications arising from changes in revenue recognition.

We early adopted ASU 2016-09 during the second quarter of 2016 on a modified retrospective basis. The adoption of new guidance had no impact on income taxes because of our significant accumulated deferred tax assets including the tax effects of net operating loss (“NOL”) and tax credit carryovers. The realization of net deferred tax assets is dependent upon the generation of sufficient future taxable income in the applicable tax jurisdictions. ASC Topic 740 requires us to record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based upon the magnitude of our deferred tax assets and our level of historical US losses, we have determined that the uncertainty regarding the realization of these assets is sufficient to warrant the need for a full valuation against our US deferred tax assets.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Sources of Cash

Our principal sources of liquidity include cash and cash equivalents totaling \$47.7 million as of September 30, 2016. We have generally funded operations in recent years through the use of existing cash balances, supplemented from time to time with the proceeds of long-term debt and borrowings under our credit facilities.

In February 2016, we committed to a cost efficiency program that encompasses a series of measures intended to allow us to more efficiently operate in a leaner, and more directed cost structure. These measures include reductions in our workforce, facilities consolidation, transferring certain business processes to lower cost regions and reducing other third-party services costs. In connection with this cost efficiency program, we have incurred \$14.5 million of the total expected incremental cash expenditures, approximately \$25 million, relating to termination benefits, facility costs, employee overlap expenses and related actions. We anticipate that the cost efficiency program will be substantially

complete by the end of the second quarter of 2017 and when fully implemented, is expected to result in annualized costs savings of approximately \$76.0 million.

In connection with the cost efficiency program, on February 26, 2016, we entered into the Financing Agreement with the Lenders. Pursuant to the Financing Agreement, we entered into a term loan in the aggregate principal amount of \$100.0 million. The Financing Agreement also provides us with the ability to draw up to a maximum of \$5.0 million in revolving credit. All outstanding loans under the Financing Agreement will become due and payable in February 2021, or in May 2020 if the \$125.0 million in outstanding principal of the Notes has not been repaid or refinanced by such time. Proceeds from the Financing Agreement have been used to replace an existing \$35.0 million revolving credit facility, finance our cost efficiency program and other initiatives, and provide operating flexibility throughout the remainder of the transformation in this period of heightened market volatility. After paying for both debt issuance costs and the cost efficiency program, the new financing provided

approximately \$70.0 million of available liquidity, about half of which replaced the prior revolving credit facility with the remainder providing incremental liquidity to fund operations. The Financing Agreement requires us to comply with a financial statement covenant that stipulates a maximum leverage ratio (defined to mean the ratio of (a) consolidated total funded indebtedness to (b) consolidated EBITDA) commencing on June 30, 2016 of 4.35:1. The maximum leverage ratio declines gradually over the term of the agreement to a requirement of 2.5:1 on March 31, 2019 and thereafter.

Our ability to satisfy the leverage ratio covenant in the future is heavily dependent on our ability to increase bookings and billings above levels experienced over the last twelve months. In recent quarters, we have experienced volatility in bookings and billings resulting from, among other things, (i) our transition towards subscription and recurring revenue streams and the resulting decline in traditional upfront product sales, (ii) volatility in currency rates and in particular the strengthening of the US dollar against the Euro, (iii) dramatic changes in the media industry and the impact it has on our customers and (iv) the impact of new and anticipated product launches and features. In addition to the impact of new bookings and billings, GAAP revenues recognized as the result of the existence of Implied Maintenance Release PCS in prior periods will decline significantly for the remainder of 2016 and in 2017, which will have an adverse impact on our leverage ratio.

In the event bookings and billings in future quarters are lower than we currently anticipate, we may be forced to take remedial actions which could include, among other things (and where allowed by the Lenders), (i) further cost reductions, (ii) seeking replacement financing, (iii) raising additional equity or (iv) disposing of certain assets or businesses. Such remedial actions, which may not be available on favorable terms or at all, could have a material adverse impact on our business. If we are not in compliance with the leverage ratio and are unable to obtain an amendment or waiver, such noncompliance may result in an event of default under the Financing Agreement, which could permit acceleration of the outstanding indebtedness under the Financing Agreement and require us to repay such indebtedness before the scheduled due date. If an event of default were to occur, we might not have sufficient funds available to make the payments required. If we are unable to repay amounts owed, the lenders may be entitled to foreclose on and sell substantially all of our assets, which secure our borrowings under the Financing Agreement.

Our cash requirements vary depending on factors such as the growth of the business, changes in working capital, capital expenditures, and obligations under our cost efficiency program. We expect to operate the business and execute our strategic initiatives principally with funds generated from operations, remaining net proceeds from the term loan borrowings under the Financing Agreement, and draw up to a maximum of \$5.0 million under the Financing Agreement's revolving credit facility. We anticipate that we 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 12 months as well as for the foreseeable future.

Cash Flows

The following table summarizes our cash flows for the periods presented (in thousands):

	Nine Months Ended	
	September 30,	
	2016	2015
Net cash used in operating activities	\$(48,925)	\$(36,087)
Net cash used in investing activities	(14,242)	(78,699)
Net cash provided by financing activities	92,591	112,755
Effect of foreign currency exchange rates on cash and cash equivalents	391	(1,045)
Net increase (decrease) in cash and cash equivalents	\$29,815	\$(3,076)

Cash Flows from Operating Activities

Cash used in operating activities aggregated \$48.9 million for the nine months ended September 30, 2016, which was primarily attributable to lower sales of our video products, and incremental cash payments relating to termination benefits and employee overlap expenses. The lower sales of our video products is due to delayed purchasing decisions of shared storage solutions by customers anticipating the next-generation shared storage product . Also contributing to the decrease in sales were more volatile market conditions in the Tier 1 enterprise space, particularly in Europe, which adversely affected purchasing decisions.

Cash Flows from Investing Activities

For the nine months ended September 30, 2016, the net cash flow used in investing activities reflected \$9.7 million used for the purchase of property and equipment, and \$4.5 million used for the cash collateral for our letters of credit. Our purchases of property and equipment largely consist of computer hardware and software to support R&D activities and information systems and leasehold improvements.

Cash Flows from Financing Activities

For the nine months ended September 30, 2016, the net cash flow provided by financing activities reflected \$100.0 million proceeds from the Term Loan and \$5.0 million issuance costs paid for the Financing Agreement entered into in February 2016. All outstanding loans under the Financing Agreement will become due and payable in February 2021, or in May 2020 if the \$125.0 million in outstanding principal of the Notes has not been repaid or refinanced by such time.

RECENT ACCOUNTING PRONOUNCEMENTS

Recent Accounting Pronouncements To Be Adopted

Our new accounting pronouncements are set forth under Part 1, Item 1 of this Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Foreign Currency Exchange Risk

We have significant international operations and 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 changes in foreign currency exchange rates that could adversely affect our revenues, net income and cash flow.

During the nine months ended September 30, 2016 and 2015, we recorded net losses (gains) of \$1.8 million and \$(0.5) million, respectively, that resulted from foreign currency denominated transactions and the revaluation of foreign currency denominated assets and liabilities.

A hypothetical change of 10% in appreciation or depreciation of foreign currency exchange rates from the quoted foreign currency exchange rates as of September 30, 2016, would not have a significant impact on our financial position, results of operations or cash flows.

Interest Rate Risk

On February 26, 2016, we borrowed \$100.0 million under the Term Loan that bears interest at approximately 7.75%. We also maintain a revolving Credit Facility that allows us to borrow up to \$5.0 million. A hypothetical 10% increase or decrease in interest rates paid on outstanding borrowings under the Financing Agreement would not have a material impact on our financial position, results of operations or cash flows.

On June 15, 2015, we issued \$125.0 million aggregate principal amount of our Notes pursuant to the terms of an indenture. The Notes pay interest semi-annually on June 15 and December 15 of each year, beginning on December 15, 2015, at an annual rate of 2.00% and mature on June 15, 2020 unless earlier converted or repurchased in accordance with their terms prior to such date. The fair value of the Notes is dependent on the price and volatility of our common stock as well as movements in interest rates. The fair value of our common stock and interest rate changes affect the fair value of the Notes, but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligations.

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 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 September 30, 2016. Based on this evaluation, our management concluded that as of September 30, 2016 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, 2015. 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, 2015, we have undertaken a broad range of remedial actions to address the material weaknesses in our internal control over financial reporting, including changes in staffing, as well as the design and implementation of new controls. We believe all necessary remedial actions to our control environment are now in place, however, the enhancements to our control environment have not been in place for a sufficient period of time to allow us to conclude that the control environment is effective as of September 30, 2016.

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

See Note 8 “Contingencies” of our Notes to Condensed Consolidated Financial Statements regarding our legal proceedings. There have been no material developments from the disclosures contained in our Annual Report on Form 10-K for the year ended December 31, 2015.

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, 2015 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.

Risks Related to Our Business and Industry

Economic conditions and regulatory changes leading up to and following the United Kingdom’s likely exit from the European Union could have a material adverse effect on our business and results of operations.

In June 2016, voters in the United Kingdom (“U.K”) approved the country’s exit from the European Union, and it is expected that the U.K. government will commence the legal process of leaving the European Union, typically referred to as “Brexit” by the end of the first quarter 2017. While the full effects of Brexit will not be known for some time, Brexit could cause disruptions to and create uncertainty surrounding our business and results of operations. The most immediate effect of the referendum and expected Brexit has been seen through significant volatility in global equity and debt markets and currency exchange rate fluctuations. Ongoing global market volatility and a deterioration in economic conditions due to uncertainty surrounding Brexit could significantly disrupt the markets in which we operate and lead our customers to closely monitor their costs and delay capital spending decisions.

Additionally, the anticipated Brexit has resulted in the strengthening of the U.S. dollar against foreign currencies in which we conduct business. Because we translate revenue denominated in foreign currency into U.S. dollars for our financial statements, during periods of a strengthening U.S. Dollar, our reported revenue from foreign operations is reduced.

Any of these effects of Brexit could materially adversely affect our business, results of operations and financial condition.

ITEM 6. EXHIBITS

The list of exhibits, which are filed or furnished with this Form 10-Q or are incorporated herein by reference, is set forth in the Exhibit Index immediately preceding the exhibits and is incorporated herein by reference.

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: November 9, 2016

By: /s/ Ilan Sidi
Name: Ilan Sidi
Interim Chief Financial
Officer and Vice
Title: President of Human
Resources

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.