

AVID TECHNOLOGY, INC.
Form 10-Q
November 06, 2015

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, 2015

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

(State or Other Jurisdiction of

Incorporation or Organization)

04-2977748

(I.R.S. Employer

Identification No.)

75 Network Drive

Burlington, Massachusetts 01803

(Address of Principal Executive Offices, Including Zip Code)

(978) 640-6789

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large Accelerated Filer

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, 2015 was 39,504,028.

AVID TECHNOLOGY, INC.
 FORM 10-Q
 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

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

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

- our ability to develop, market and sell new products and services;
- our ability to successfully implement our Avid Everywhere strategic plan and other strategic initiatives, including our cost saving strategies;
- 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 mitigate and remediate effectively 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;
- 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;
- the risk of restatement of our financial statements; and
- fluctuations in foreign exchange and interest rates.

Actual results and events in future periods may differ materially from those expressed or implied by forward-looking statements in this 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, 2014 and of this Form 10-Q. 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, Fast Track, 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net revenues:				
Products	\$88,945	\$105,330	\$245,124	\$287,215
Services	48,491	37,099	121,665	114,840
Total net revenues	137,436	142,429	366,789	402,055
Cost of revenues:				
Products	32,256	37,807	92,416	107,898
Services	15,416	14,981	46,054	45,975
Amortization of intangible assets	1,950	—	2,113	50
Total cost of revenues	49,622	52,788	140,583	153,923
Gross profit	87,814	89,641	226,206	248,132
Operating expenses:				
Research and development	25,225	22,154	71,708	67,178
Marketing and selling	31,564	31,410	92,420	98,522
General and administrative	15,834	20,644	52,646	58,959
Amortization of intangible assets	786	373	1,568	1,251
Restructuring costs (recoveries), net	—	—	539	(165)
Total operating expenses	73,409	74,581	218,881	225,745
Operating income	14,405	15,060	7,325	22,387
Interest income	4	1	43	71
Interest expense	(2,473)	(458)	(3,765)	(1,246)
Other (expense) income, net	(50)	2	(959)	12
Income before income taxes	11,886	14,605	2,644	21,224
Provision for (benefit from) income taxes	768	365	(4,221)	1,427
Net income	\$11,118	\$14,240	\$6,865	\$19,797
Net income per common share – basic and diluted	\$0.28	\$0.36	\$0.17	\$0.51
Weighted-average common shares outstanding – basic	39,231	39,133	39,417	39,117
Weighted-average common shares outstanding – diluted	39,750	39,201	40,727	39,164

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		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net income	\$11,118	\$14,240	\$6,865	\$19,797
Other comprehensive income:				
Foreign currency translation adjustments	(1,735)	(5,232)	(5,403)	(4,096)
Comprehensive income	\$9,383	\$9,008	\$1,462	\$15,701

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, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$21,980	\$25,056
Accounts receivable, net of allowances of \$9,257 and \$10,692 at September 30, 2015 and December 31, 2014, respectively	56,995	54,655
Inventories	48,784	48,001
Deferred tax assets, net	310	322
Prepaid expenses	8,448	6,892
Other current assets	12,954	17,932
Total current assets	149,471	152,858
Property and equipment, net	34,777	32,136
Intangible assets, net	35,966	2,445
Goodwill	33,905	—
Long-term deferred tax assets, net	2,044	1,886
Other long-term assets	8,013	2,274
Total assets	\$264,176	\$191,599
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$39,232	\$32,951
Accrued compensation and benefits	23,362	32,636
Accrued expenses and other current liabilities	32,228	32,353
Income taxes payable	3,176	5,480
Short-term debt	10,000	—
Deferred tax liabilities, net	316	—
Deferred revenues	199,572	206,608
Total current liabilities	307,886	310,028
Long-term debt	94,605	—
Long-term deferred tax liabilities, net	7,687	136
Long-term deferred revenues	164,935	208,232
Other long-term liabilities	16,674	14,273
Total liabilities	591,787	532,669
Contingencies (Note 9)		
Stockholders' deficit:		
Common stock	423	423
Additional paid-in capital	1,058,330	1,049,969
Accumulated deficit	(1,314,933)	(1,321,798)
Treasury stock at cost	(64,415)	(68,051)
Accumulated other comprehensive loss	(7,016)	(1,613)
Total stockholders' deficit	(327,611)	(341,070)
Total liabilities and stockholders' deficit	\$264,176	\$191,599

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,	
	2015	2014
Cash flows from operating activities:		
Net income	\$6,865	\$19,797
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	13,936	13,721
Recovery from doubtful accounts	(175)	(177)
Stock-based compensation expense	7,731	2,718
Non-cash interest expense	1,544	220
Unrealized foreign currency transaction gains	(5,098)	(494)
Deferred tax benefit	(6,504)	(6)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	6,844	931
Inventories	4,028	6,145
Prepaid expenses and other current assets	1,772	646
Accounts payable	4,932	585
Accrued expenses, compensation and benefits and other liabilities	(17,764)	(14,842)
Income taxes payable	1,268	(603)
Deferred revenues	(55,466)	(49,471)
Net cash used in operating activities	(36,087)	(20,830)
Cash flows from investing activities:		
Purchases of property and equipment	(11,110)	(11,660)
Payments for business and technology acquisitions, net of cash acquired	(65,967)	—
Proceeds from divestiture of consumer business	—	1,500
(Increase) decrease in other long-term assets	(575)	51
Increase in restricted cash	(1,047)	—
Net cash used in investing activities	(78,699)	(10,109)
Cash flows from financing activities:		
Proceeds from long-term debt, net of issuance costs	120,401	—
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	3,113	1
Common stock repurchases for tax withholdings for net settlement of equity awards	(1,442)	(318)
Proceeds from revolving credit facilities	49,500	20,500
Payments on revolving credit facilities	(39,500)	(12,500)
Payments for credit facility issuance costs	(1,193)	—
Net cash provided by financing activities	112,755	7,683
Effect of exchange rate changes on cash and cash equivalents	(1,045)	(2,471)
Net decrease in cash and cash equivalents	(3,076)	(25,727)
Cash and cash equivalents at beginning of period	25,056	48,203
Cash and cash equivalents at end of period	\$21,980	\$22,476

Supplemental information:

Cash paid for income taxes, net of refunds	\$1,538	\$2,002
Cash paid for interest	1,492	1,026
Non-cash financing activities:		
Issuance costs for long-term debt	\$130	\$—

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, 2014 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, 2014 in its Annual Report on Form 10-K for the year ended December 31, 2014, 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, 2014.

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.

Cash used in operating activities aggregated \$36.1 million for the nine months ended September 30, 2015. The Company’s cash requirements vary depending on factors such as the growth of the business, changes in working capital, capital expenditures, acquisitions of businesses or technologies and obligations under restructuring programs. On June 22, 2015, the Company entered into a revolving credit facility (the “Credit Facility”) that allows the Company to borrow up to a maximum of \$35.0 million. The Company may increase the total commitments under the Credit Facility by up to an additional \$15.0 million, subject to certain conditions. As of September 30, 2015, the Company had \$10.0 million in outstanding borrowings under the Credit Facility. The cash and cash equivalents totaling \$22.0 million and available borrowings under the Credit Facility of \$22.9 million provide the Company with \$44.9 million in total liquidity as of September 30, 2015. Management expects to operate the business and execute its strategic initiatives principally with funds generated from operations and available borrowings under the 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 12 months, as well as for the foreseeable future.

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 18 months, 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 the Media Composer, Pro Tools and Sibelius product lines. On Media Composer 8.0 in particular, which was released in May 2014, management has (i) clearly communicated 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) implemented robust digital rights management tools to enforce the policy. With the new policy and technology for Media Composer 8.0 in place, combined with management's intent to continue to adhere to the policy, management concluded in the third quarter of 2015 that Implied Maintenance Release PCS for Media Composer 8.0 transactions no longer exists. As a result of the conclusion that Implied Maintenance Release PCS on Media Composer 8.0 has ended, revenue and net income for the three and nine months ended September 30, 2015 increased by approximately \$13.0 million, reflecting the recognition of orders received over the last 18 months that would have qualified for earlier recognition using the residual method of accounting. In addition, as the elimination of Implied Maintenance Release PCS also resulted in the accelerated recognition of maintenance and product revenues that were previously being recognized over the expected period of Implied Maintenance Release PCS rather than the contractual maintenance period, the change in the estimated amortization period of transactions being recognized on a ratable basis resulted in an additional \$2.5 million of revenue during the three and nine months ended September 30, 2015. Management will continue to evaluate the judgment of whether Implied Maintenance Release PCS exists on each product line and version. If and when management concludes Implied Maintenance Release PCS no longer exists for other product lines or versions in future quarters, software revenue related to orders affected will be accelerated and 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 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 all professional services and training and for some of the Company's support offerings. The Company's policy for establishing VSOE of fair value consists of evaluating standalone sales, where available, 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 1 to 8 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 a majority 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

On May 28, 2014, the Financial Accounting Standards Board (the "FASB") and the International Accounting Standards Board (the "IASB") issued substantially converged final standards on revenue recognition. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The new revenue recognition guidance becomes effective for 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 Accounting Standards Update ("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.

On September 25, 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The update eliminates the requirement to retrospectively account for adjustments to provisional amounts recognized in a business combination. The amendments in this update become effective for the Company on January 1, 2016. Early adoption is permitted for any interim and annual financial statements that have not yet been made available for issuance. The Company acquired Orad Hi-Tech Systems Ltd. ("Orad") on June 23, 2015 and is in the process of obtaining additional information and recognizing adjustments to the provisional amounts. The Company has adopted the guidance to simplify its reporting for the current year and has disclosed the nature and amount of any measurement period adjustments recognized during the reporting period in accordance with the guidance.

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 fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The Company is evaluating the potential impact of adopting this standard on its financial statements.

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 shares 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 or market conditions.

The following table sets forth (in thousands) potential common shares that were considered anti-dilutive securities.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Options	1,847	4,705	1,023	5,902
Non-vested restricted stock units	415	54	231	83
Anti-dilutive potential common shares	2,262	4,759	1,254	5,985

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. 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 12, Long-Term Debt and Credit Agreement). The Company uses the treasury stock method in computing the Diluted EPS impact of the Notes. The Notes are convertible into shares but the Company's stock price was less than the conversion price at September 30, 2015. The Capped Call is not reflected in Diluted EPS as it will always be anti-dilutive.

3. ACQUISITION

On June 23, 2015, the Company completed its acquisition of Orad, an Israeli company previously listed on the Frankfurt Stock Exchange. Each issued and outstanding share of Orad common stock was canceled and converted into the right to receive consideration equal to €5.67 in cash, representing total consideration paid of \$66.0 million based on the exchange rate on the date of closing, net of estimated cash acquired. As a result of the acquisition, the Company incurred merger and integration cost of

\$5.6 million, which was recorded as general and administrative expenses in the Company's statement of operations. 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.

The following table summarizes the preliminary purchase price allocation to the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition (in thousands). During the three months ended September 30, 2015, the Company offset the deferred tax assets and liabilities, and presented a net amount within each tax jurisdiction. The Company is continuing to collect information, refine preliminary valuations with additional information, and evaluate the fair value of the assets and liabilities acquired, and related tax effects. As a result, adjustments to the values presented below may be made over the next several quarters.

Cash	\$7,477	
Accounts receivable, net	9,004	
Inventories	4,810	
Other current assets	1,092	
Property and equipment	1,338	
Identifiable intangible assets	37,200	
Other assets	3,457	
Goodwill	33,905	
Total assets acquired	98,283	
Accounts payable	(1,395))
Accrued expenses and other current liabilities	(7,045))
Deferred revenue and deposits	(5,154))
Deferred tax liabilities, net	(7,306))
Other long-term liabilities	(3,939))
Total liabilities assumed	(24,839))
Net assets acquired	\$73,444	

The preliminary purchase price allocation resulted in goodwill of \$33.9 million, which is not deductible for tax purposes. The goodwill is attributable to expected synergies from combining the operations of Orad with the Company and intangible assets that do not qualify for separate recognition, such as an assembled workforce. The following are the identifiable intangible assets acquired and their respective weighted average useful lives, as determined based on preliminary valuations (dollars in thousands):

	Weighted Average Life (Years)	Amount
Core and completed technology	4	\$31,200
Customer relationships	4	5,800
Trade name	1	200
Total		\$37,200

The estimated fair value of intangible assets was determined using the excess earnings method for technology, replacement cost method for customer relationships and relief from royalty method for trade name.

Pro Forma Financial Information for Acquisition of Orad (in thousands except per share data, unaudited)

The results of operations of Orad have been included in the results of operations of the Company since June 23, 2015, the date of acquisition. The following unaudited pro forma financial information presents the Company's results of operations for the three and nine months ended September 30, 2015 and 2014 as if the acquisition of Orad had occurred at the beginning of 2014. The pro

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forma financial information for the combined entities has been prepared for comparative purposes only and is not indicative of what actual results would have been if the acquisition had taken place at the beginning of fiscal 2014, or of future results.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net revenues	137,436	152,881	382,041	432,011
Net income (loss)	11,118	12,728	(541)	15,117
Net income (loss) per share:				