

AVID TECHNOLOGY, INC.  
Form 10-Q  
November 13, 2014

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

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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, 2014

OR

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

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

Commission File Number: 1-36254

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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)

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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

The number of shares outstanding of the registrant's Common Stock as of November 10, 2014 was 39,213,698.

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

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

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

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

## PART I - FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## AVID TECHNOLOGY, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share data, unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net revenues:				
Products	\$105,330	\$92,969	\$287,215	\$291,545
Services	37,099	45,924	114,840	124,764
Total net revenues	142,429	138,893	402,055	416,309
Cost of revenues:				
Products	37,807	39,683	107,898	115,600
Services	14,981	16,372	45,975	47,040
Amortization of intangible assets	—	158	50	1,310
Total cost of revenues	52,788	56,213	153,923	163,950
Gross profit	89,641	82,680	248,132	252,359
Operating expenses:				
Research and development	22,154	23,239	67,178	70,693
Marketing and selling	31,410	31,512	98,522	99,324
General and administrative	20,644	22,715	58,959	54,443
Amortization of intangible assets	373	660	1,251	1,981
Restructuring costs (recoveries), net	—	688	(165)	) 2,879
Total operating expenses	74,581	78,814	225,745	229,320
Operating income	15,060	3,866	22,387	23,039
Interest income	1	76	71	271
Interest expense	(458)	) (441)	) (1,246)	) (1,150)
Other income, net	2	2	12	11
Income before income taxes	14,605	3,503	21,224	22,171
Provision for income taxes, net	365	921	1,427	2,147
Net income	\$14,240	\$2,582	\$19,797	\$20,024
Net income per common share – basic and diluted	\$0.36	\$0.07	\$0.51	\$0.51
Weighted-average common shares outstanding – basic	39,133	39,075	39,117	39,031
Weighted-average common shares outstanding – diluted	39,201	39,076	39,164	39,066

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,	
	2014	2013	2014	2013
Net income	\$14,240	\$2,582	\$19,797	\$20,024
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(5,232	) 2,414	(4,096	) (1,292
Comprehensive income	\$9,008	\$4,996	\$15,701	\$18,732

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, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$22,476	\$48,203
Accounts receivable, net of allowances of \$11,255 and \$13,963 at September 30, 2014 and December 31, 2013, respectively	56,011	56,770
Inventories	53,977	60,122
Deferred tax assets, net	497	522
Prepaid expenses	6,573	7,778
Other current assets	15,995	17,493
Total current assets	155,529	190,888
Property and equipment, net	34,414	35,186
Intangible assets, net	2,830	4,260
Long-term deferred tax assets, net	2,272	2,415
Other long-term assets	2,161	2,393
Total assets	\$197,206	\$235,142
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$34,509	\$33,990
Accrued compensation and benefits	26,701	30,342
Accrued expenses and other current liabilities	31,649	41,273
Income taxes payable	6,032	6,875
Short-term debt	8,000	—
Deferred tax liabilities, net	—	14
Deferred revenues	221,830	211,403
Total current liabilities	328,721	323,897
Long-term deferred tax liabilities, net	536	565
Long-term deferred revenues	195,507	255,429
Other long-term liabilities	13,676	14,586
Total liabilities	538,440	594,477
Contingencies (Note 8)		
Stockholders' deficit:		
Common stock	423	423
Additional paid-in capital	1,044,096	1,043,384
Accumulated deficit	(1,316,729)	(1,336,526)
Treasury stock at cost	(70,855)	(72,543)
Accumulated other comprehensive income	1,831	5,927
Total stockholders' deficit	(341,234)	(359,335)
Total liabilities and stockholders' deficit	\$197,206	\$235,142

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





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

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 19,797	\$ 20,024
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	13,721	16,970
(Recovery) expense from doubtful accounts	(177	) 140
Gain on sales of assets	—	(125
Stock-based compensation expense	2,718	5,716
Non-cash interest expense	220	220
Foreign currency transaction gains	(494	) (856
(Benefit from) provision for deferred taxes	(6	) 6
Changes in operating assets and liabilities:		
Accounts receivable	931	12,255
Inventories	6,145	7,473
Prepaid expenses and other current assets	646	965
Accounts payable	585	(4,823
Accrued expenses, compensation and benefits and other liabilities	(14,842	) (1,348
Income taxes payable	(603	) (475
Deferred revenues	(49,471	) (66,170
Net cash used in operating activities	(20,830	) (10,028
Cash flows from investing activities:		
Purchases of property and equipment	(11,660	) (8,998
Proceeds from divestiture of consumer business	1,500	—
Proceeds from sale of assets	—	125
Decrease (increase) in other long-term assets	51	(25
Net cash used in investing activities	(10,109	) (8,898
Cash flows from financing activities:		
Proceeds from the issuance of common stock under employee stock plans	1	177
Common stock repurchases for tax withholdings for net settlement of equity awards	(318	) (263
Proceeds from revolving credit facilities	20,500	—
Payments on revolving credit facilities	(12,500	) —
Net cash provided by (used in) financing activities	7,683	(86
Effect of exchange rate changes on cash and cash equivalents		
	(2,471	) (1,145
Net decrease in cash and cash equivalents	(25,727	) (20,157
Cash and cash equivalents at beginning of period	48,203	70,390
Cash and cash equivalents at end of period	\$ 22,476	\$ 50,233
Supplemental information:		
Cash paid for income taxes, net of refunds	\$ 2,002	\$ 1,643
Cash paid for interest	1,026	930

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 income, financial position and cash flows of the Company in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The accompanying condensed consolidated balance sheet as of December 31, 2013 was derived from the Company’s audited consolidated financial statements and does not include all disclosures required by U.S. GAAP for annual financial statements. The Company filed audited consolidated financial statements as of and for the year ended December 31, 2013 in its 2013 Annual Report on Form 10-K, which included all information and footnotes necessary for such presentation. The financial statements contained in this Form 10-Q should be read in conjunction with the audited consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2013.

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

The Company has generally funded operations in recent years through the use of existing cash balances and cash flows from operations, which have been supplemented from time to time with borrowings under credit facilities. At September 30, 2014, the Company’s principal sources of liquidity included cash and cash equivalents totaling \$22.5 million and available borrowings under the Company’s credit facilities, which are discussed in Note 11. Cash used in operating activities aggregated \$20.8 million for the nine months ended September 30, 2014. The cash usage during the nine months ended September 30, 2014 was attributable to costs associated with restatement-related activities and, to a lesser extent, payments of incentive-based compensation and restructuring activities. The use of cash associated with the restatement and restructuring activities is expected to materially abate by the end of 2014, and the Company does not anticipate any further significant payments related to incentive-based compensation for the balance of 2014.

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

Subsequent Events

The Company evaluated subsequent events through the date of issuance of these financial statements and, except for the subsequent events disclosed in Note 8, no other subsequent events required recognition or disclosure in these financial statements.

Recent Accounting Pronouncements To Be Adopted

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

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

## 2. NET INCOME PER SHARE

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Options	4,705	4,999	5,902	5,328
Non-vested restricted stock units	54	322	83	379
Anti-dilutive potential common shares	4,759	5,321	5,985	5,707

## 3. FOREIGN CURRENCY CONTRACTS

As a hedge against the foreign exchange exposure of certain forecasted receivables, payables and cash balances of foreign subsidiaries, the Company enters into short-term foreign currency forward contracts. The changes in fair value of the foreign currency forward contracts intended to offset foreign currency exchange risk on cash flows associated with net monetary assets are recorded as gains or losses in the Company’s statement of operations in the period of change, because these contracts have not been accounted for as hedges. At September 30, 2014 and December 31, 2013, the Company had foreign currency forward contracts outstanding with aggregate notional values of \$24.7 million and \$21.0 million, respectively, as hedges against such forecasted foreign-currency-denominated receivables, payables and cash balances. These forward contracts typically mature within 30 days of execution.

The Company may also enter into short-term foreign currency spot and forward contracts as a hedge against the foreign currency exchange risk associated with certain of its net monetary assets denominated in foreign currencies. At September 30, 2014 and December 31, 2013, the Company had such foreign currency contracts with aggregate notional values of \$4.8 million and \$5.4 million, respectively. The fair values of these foreign currency contracts are also recorded as gains or losses in the Company’s statement of operations in the period of change.

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

Derivatives Not Designated as Hedging Instruments under Accounting Standard	Balance Sheet Classification	Fair Value at September 30,	Fair Value at December 31,
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Codification (“ASC”) Topic 815		2014	2013
Financial assets:			
Foreign currency contracts	Other current assets	\$—	\$59
Financial liabilities:			
Foreign currency contracts	Accrued expenses and other current liabilities	\$1,537	\$228

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

Derivatives Not Designated as Hedging Instruments under ASC Topic 815	Net Gain (Loss) Recorded in Marketing and Selling Expenses			
	Three Months Ended		Nine Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
Foreign currency contracts and revaluation of hedged items, net	\$30	\$(320)	\$(1,220)	\$74

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

#### 4. FAIR VALUE MEASUREMENTS

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

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

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

	September 30, 2014	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Deferred compensation assets	\$1,885	\$1,257	\$628	\$—
Foreign currency contracts	—	—	—	—
Financial liabilities:				
Foreign currency contracts	\$1,537	\$—	\$1,537	\$—

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

## 5. INVENTORIES

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

	September 30, 2014	December 31, 2013
Raw materials	\$10,232	\$10,142
Work in process	229	338
Finished goods	43,516	49,642
Total	\$53,977	\$60,122

At September 30, 2014 and December 31, 2013, finished goods inventory included \$3.1 million and \$3.6 million, respectively, associated with products shipped to customers and deferred labor costs for arrangements where revenue recognition had not yet commenced.

## 6. INTANGIBLE ASSETS

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

	September 30, 2014			December 31, 2013		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Completed technologies and patents	\$52,195	\$(52,195)	\$—	\$52,711	\$(52,659)	\$52
Customer relationships	49,341	(46,522)	2,819	49,627	(45,557)	4,070
Trade names	5,948	(5,948)	—	5,976	(5,976)	—
Capitalized software costs	5,931	(5,920)	11	5,944	(5,806)	138
Total	\$113,415	\$(110,585)	\$2,830	\$114,258	\$(109,998)	\$4,260

Amortization expense related to all intangible assets in the aggregate was \$0.4 million and \$0.9 million, respectively, for the three months ended September 30, 2014 and 2013 and \$1.4 million and \$3.5 million, respectively, for the nine months ended September 30, 2014 and 2013. The Company expects amortization of acquired intangible assets to be approximately \$0.4 million for the remainder of 2014, \$1.5 million in 2015 and \$1.0 million in 2016.





## 7. OTHER LONG-TERM LIABILITIES

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

	September 30, 2014	December 31, 2013
Long-term deferred rent	\$8,575	\$8,361
Long-term accrued restructuring	1,448	2,335
Long-term deferred compensation	3,653	3,890
Total	\$13,676	\$14,586

## 8. CONTINGENCIES

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

In June 2013, a purported stockholder of the Company filed a derivative complaint against the Company as nominal defendant and certain of the Company's current and former directors and officers. The complaints alleged various violations of state law, including breaches of fiduciary duties, waste of corporate assets and unjust enrichment. The derivative complaint sought, inter alia, unspecified monetary judgment, equitable and/or injunctive relief, restitution, disgorgement and a variety of purported corporate governance reforms. On October 30, 2013, the complaint was dismissed without prejudice. On November 26, 2013, the Company's Board of Directors received a letter from the plaintiff in the dismissed derivative suit, demanding that the Company's Board of Directors investigate, address and commence proceedings against certain of the Company's directors, officers, employees and agents based on conduct identified in the dismissed complaint. In December 2013, the Company's Board created a committee to conduct an investigation into the allegations in the demand letter. The special committee, with the assistance of independent outside counsel, investigated the allegations in the stockholder's demand letter and, on October 29, 2014, reported its findings to the Company's Board along with its recommendation that the Board not commence proceedings as requested by the stockholder's demand. The Company's Board unanimously accepted the recommendation of the special committee and, on November 10, 2014, outside counsel for the special committee sent a letter to counsel for the stockholder informing the stockholder of the Board's determination.

In April and May 2013, the Company received a document preservation request and inquiry from the Division of Enforcement of the Securities and Exchange Commission and a federal grand jury subpoena from the Department of Justice requesting certain documents, including in particular documents related to the Company's disclosures regarding its accounting review and financial transactions. The Company has produced documents responsive to such requests and has provided regular updates to the authorities on its accounting evaluation. The Company intends to continue to

cooperate fully with the authorities. At this time, the Company believes that a loss related to the inquiries is neither probable nor remote, and based on the information currently available regarding these inquiries, the Company is unable to determine an estimate, or range of estimates, of potential losses.

At September 30, 2014, the Company was subject to various litigations claiming patent infringement by the Company. Some of these legal proceedings may include speculative claims for substantial or indeterminate amounts of damages. If any infringement is determined to exist, the Company may seek licenses or settlements. In addition, as a normal incidence of the nature of the Company's business, various claims, charges and litigation have been asserted or commenced from time to time against the

Company arising from or related to contractual, employee relations, intellectual property rights, product or service performance, or other matters.

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

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

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

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

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

The Company has letters of credit totaling approximately \$1.3 million that support its ongoing operations. These letters of credit have various terms and expire during 2014 and 2015. Some of the letters of credit may automatically renew based on the terms of the underlying agreements.

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

	Nine Months Ended September 30,	
	2014	2013
Accrual balance at beginning of year	\$3,501	\$4,476
Accruals for product warranties	4,943	3,602

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Costs of warranty claims	(5,018	) (4,648	)
Accrual balance at end of period	\$3,426	\$3,430	

The total warranty accrual of \$3.4 million is included in the caption “accrued expenses and other current liabilities” in the Company’s consolidated balance sheet at September 30, 2014.

## 9. RESTRUCTURING COSTS AND ACCRUALS

## 2013 Restructuring Plans

In June 2013, the Company's leadership evaluated the marketing and selling teams and, in an effort to better align sales resources with the Company's strategic goals and enhance its global account team approach, eliminated 31 positions. As a result, the Company recognized related restructuring costs of \$1.4 million during the second and third quarters of 2013.

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

## Prior Years' Restructuring Plans

During the first nine months of 2013, the Company recorded revisions totaling \$1.4 million, primarily resulting from sublease assumption changes related to the abandonment of facilities under the 2008, 2010 and 2012 Restructuring Plans.

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

The remaining accrual balance of \$2.7 million at September 30, 2014 was mainly related to the closure of part of the Company's Mountain View, California, and Dublin, Ireland facilities under 2008 and 2012 restructuring plans. No further restructuring actions are anticipated under these plans.

## Restructuring Summary

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

	Employee- Related	Facilities/ Other- Related	Total
Accrual balance at December 31, 2013	\$2,399	\$6,102	\$8,501
Revisions of estimated liabilities	—	(165)	(165)
Accretion	—	517	517
Cash payments	(2,290)	(3,795)	(6,085)
Foreign exchange impact on ending balance	(1)	(45)	(46)
Accrual balance at September 30, 2014	\$108	\$2,614	\$2,722

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

The facilities/other-related accruals at September 30, 2014 represent contractual lease payments, net of estimated sublease income, on space vacated as part of the Company's restructuring actions. The leases, and payments against

the amounts accrued, extend through 2021 unless the Company is able to negotiate earlier terminations. Of the total facilities-related accruals, \$1.2 million is included in the caption “accrued expenses and other current liabilities” and \$1.4 million is included in the caption “other long-term liabilities” in the Company’s condensed consolidated balance sheet at September 30, 2014.

## 10. SEGMENT INFORMATION

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Video products and solutions net revenues	\$63,275	\$57,683	\$178,849	\$174,569
Audio products and solutions net revenues	42,055	35,286	108,366	116,976
Products and solutions net revenues	105,330	92,969	287,215	291,545
Services net revenues	37,099	45,924	114,840	124,764
Total net revenues	\$142,429	\$138,893	\$402,055	\$416,309

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
United States	\$54,215	\$53,904	\$143,947	\$160,829
Other Americas	10,895	11,891	35,505	36,727
Europe, Middle East and Africa	58,099	51,943	167,621	155,444
Asia-Pacific	19,220	21,155	54,982	63,309
Total net revenues	\$142,429	\$138,893	\$402,055	\$416,309

## 11. CREDIT AGREEMENT

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

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



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

At September 30, 2014, Avid Technology and Avid Europe had certain reserves and letters of credit guaranteed under the credit facilities of \$4.0 million and \$0.9 million, respectively, and available borrowings under the credit facilities of approximately \$10.4 million and \$11.6 million, respectively, after taking into consideration the reserves, outstanding letters of credit and related liquidity covenant. In addition, Avid Technology had \$8.0 million in short-term outstanding borrowings under the credit facilities at September 30, 2014.

## 12. STOCK-BASED COMPENSATION

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

	Time-Based Shares	Performance-Based Shares	Total Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at January 1, 2014	3,237,915	1,488,500	4,726,415	\$14.18		
Granted	2,087,350	—	2,087,350	\$7.53		
Exercised	—	—	—	\$—		
Forfeited or canceled	(1,023,742)	(159,250)	(1,182,992)	\$16.49		
Options outstanding at September 30, 2014	4,301,523	1,329,250	5,630,773	\$11.23	4.91	\$8,406
Options vested at September 30, 2014 or expected to vest			5,256,455	\$11.44	4.83	\$7,595
Options exercisable at September 30, 2014			2,452,167	\$14.77	3.71	\$1,727

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

	Non-Vested Restricted Stock Units			Weighted- Average Grant-Date Fair Value	Weighted- Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
	Time-Based Shares	Performance-Based Shares	Total Shares			
Non-vested at January 1, 2014	205,233	117,500	322,733	\$11.30		
Granted	—	—	—	\$—		
Vested	(76,171)	(43,750)	(119,921)	\$9.74		
Forfeited	(5,156)	(42,500)	(47,656)	\$15.26		
Non-vested at September 30, 2014	123,906	31,250	155,156	\$11.29	2.44	\$1,566
Expected to vest			109,757	\$8.76	1.11	\$1,107

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

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
		2013	2014	2013

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Cost of products revenues	\$62	\$91	\$203	\$285
Cost of services revenues	16	94	191	338
Research and development expenses	96	137	336	455
Marketing and selling expenses	252	401	1,186	1,455
General and administrative expenses	(1,106	) 808	802	3,183
	\$ (680	) \$1,531	\$2,718	\$5,716

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Negative stock-based compensation expense for the three-month ended September 30, 2014 was due to the reversal of previously recognized stock-based compensation expense attributable to performance-based awards which are no longer expected to vest based on current projections of relevant performance conditions. The timing and amount of stock-based compensation attributable to performance-based awards is subject to significant estimates as to whether or not performance conditions will be met, which can cause associated expense recognition to fluctuate significantly from quarter to quarter based on changes in estimates that occur during the periods performance is being measured.

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

EXECUTIVE OVERVIEW

Our Company

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

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

Avid's strategic transformation is built on three pillars, Avid Everywhere, The Avid Advantage and the Avid Customer Association. Avid Everywhere, introduced in April 2013, is our strategic vision for connecting creative professionals and media organizations with their audiences in a more powerful, efficient, collaborative, and profitable way. 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 Avid Customer Association, or ACA, is an association run for and by a dedicated group of 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 the company and our customers.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

We believe that our critical accounting policies are those related to revenue recognition and allowances for sales returns and exchanges; stock-based compensation; income tax assets and liabilities; and restructuring charges and accruals. We believe these policies are critical because they most significantly affect the portrayal of our financial condition and results of operations and involve our most difficult and subjective estimates and judgments. A discussion of our critical accounting policies may be found in our 2013 Annual Report on Form 10-K in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Critical Accounting Policies and Estimates." There have been no significant changes to the identification of the accounting policies and estimates that are deemed critical, nor have there been any significant changes to the policies applied or methodologies used by management to measure the critical accounting estimates.

## RESULTS OF OPERATIONS

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

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2014	2013	2014	2013	
Net revenues:					
Product revenues	74.0	% 66.9	% 71.4	% 70.0	%
Services revenues	26.0	% 33.1	% 28.6	% 30.0	%
Total net revenues	100.0	% 100.0	% 100.0	% 100.0	%
Cost of revenues	37.1	% 40.5	% 38.3	% 39.4	%
Gross margin	62.9	% 59.5	% 61.7	% 60.6	%
Operating expenses:					
Research and development	15.6	% 16.7	% 16.7	% 17.0	%
Marketing and selling	22.1	% 22.7	% 24.4	% 23.9	%
General and administrative	14.4	% 16.4	% 14.7	% 13.1	%
Amortization of intangible assets	0.3	% 0.5	% 0.3	% 0.5	%
Restructuring costs, net	—	% 0.5	% —	% 0.7	%
Total operating expenses	52.4	% 56.8	% 56.1	% 55.2	%
Operating income	10.5	% 2.7	% 5.6	% 5.4	%
Interest and other income (expense), net	(0.3)	)% (0.3)	)% (0.3)	)% (0.2)	)%
Income before income taxes	10.2	% 2.4	% 5.3	% 5.2	%
Provision for income taxes, net	0.2	% 0.7	% 0.4	% 0.5	%
Net income	10.0	% 1.7	% 4.9	% 4.7	%

## Net Revenues

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

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

(dollars in thousands)

	2014		Change	2013
	Net Revenues	\$	%	Net Revenues
Video products and solutions net revenues	\$63,275	\$5,592	9.7%	\$57,683
Audio products and solutions net revenues	42,055	6,769	19.2%	35,286
Products and solutions net revenues	105,330	12,361	13.3%	92,969
Services net revenues	37,099	(8,825)	) (19.2)%	45,924
Total net revenues	\$142,429	\$3,536	2.5%	\$138,893

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Net Revenues for the Nine Months Ended September 30, 2014 and 2013

(dollars in thousands)

	2014	Change		2013
	Net Revenues	\$	%	Net Revenues
Video products and solutions net revenues	\$178,849	\$4,280	2.5%	\$174,569
Audio products and solutions net revenues	108,366	(8,610)	) (7.4)%	116,976
Products and solutions net revenues	287,215	(4,330)	) (1.5)%	291,545
Services net revenues	114,840	(9,924)	) (8.0)%	124,764
Total net revenues	\$402,055	\$(14,254)	) (3.4)%	\$416,309

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
United States	38%	39%	36%	39%
Other Americas	8%	9%	9%	9%
Europe, Middle East and Africa	41%	37%	42%	37%
Asia-Pacific	13%	15%	14%	15%

Video Products and Solutions Revenues

Video products and solutions revenues are derived primarily from sales of our storage and workflow solutions, our media management solutions, and our video creative tools. Video products and solutions revenues increased \$5.6 million, or 9.7%, for the three-month period ended September 30, 2014, and increased \$4.3 million, or 2.5%, for the nine-month period ended September 30, 2014, compared to the same periods in 2013. For both the three- and nine-month periods, revenues from our storage and workflow solutions and our media management solutions increased, while revenues from our video creative tools decreased. The increase in revenues for these periods reflects strong bookings growth in prior quarters that converted into revenue. The strong bookings in prior quarters were driven by adoption of Avid Everywhere platform based solutions. For the three-month period ended September 30, 2014, the large increase in revenue is also due to the completion and delivery of a number of large projects during the quarter. The revenue from most of the products delivered was recognized during the quarter and the revenue from the services component will be recognized in future periods. We commonly sell large, complex solutions to our customers that have long lead times where the timing of order execution and fulfillment can be difficult to predict. As a result, the timing and amount of product revenue recognized each quarter related to these large orders, as well as the services associated with them, can fluctuate significantly from quarter to quarter and cause quarterly operating results to vary. The increases for both the three- and nine-month periods ended September 30, 2014 were partially offset by lower amortization of deferred revenues (that is, lower recognition of revenue backlog) 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. Revenue backlog associated with transactions executed prior to the adoption of ASU No. 2009-13 and ASU No. 2009-14 will continue to decline, contributing less revenue each period, until the balance is largely amortized by 2016.

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 increased \$6.8 million, or 19.2%, for the three-month period ended September 30, 2014, and decreased \$8.6 million, or 7.4%,



for the nine-month period ended September 30, 2014, compared to the same periods in 2013. The increase for the three-month period ended September 30, 2014 was primarily attributable to shipments of our new modular control surface, Pro Tools | S6. While this product was launched in late 2013, production levels had not ramped up to meet demand until the third quarter of 2014. The decrease in audio revenues for the nine-month period ended September 30, 2014 was primarily due to the previously discussed lower amortization of deferred revenues attributable to transactions executed on or before December 31, 2010.

## Services Revenues

Services revenues are derived primarily from maintenance contracts, as well as professional services and training. Services revenues decreased \$8.8 million, or 19.2%, for the three-month period ended September 30, 2014, and decreased \$9.9 million, or 8.0%, for the nine-month period ended September 30, 2014, compared to the same periods in 2013. The decreases in services revenues are the result of the timing of recognition of professional services revenues, which is largely dependent upon the timing of large professional services engagements, as well as the impact of 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 for the Three Months Ended September 30, 2014 and 2013

(dollars in thousands)

	2014	Change		2013
	Costs	\$	%	Costs
Cost of products revenues	\$37,807	\$(1,876)	) (4.7)%	\$39,683
Cost of services revenues	14,981	(1,391)	) (8.5)%	16,372
Amortization of intangible assets	—	(158)	) (100.0)%	158
Total cost of revenues	\$52,788	\$(3,425)	) (6.1)%	\$56,213
Gross profit	\$89,641	\$6,961	8.4%	\$82,680

## Costs of Revenues for the Nine Months Ended September 30, 2014 and 2013

(dollars in thousands)

	2014	Change		2013
	Costs	\$	%	Costs
Cost of products revenues	\$107,898	\$(7,702)	) (6.7)%	\$115,600
Cost of services revenues	45,975	(1,065)	) (2.3)%	47,040
Amortization of intangible assets	50	(1,260)	) (96.2)%	1,310
Total cost of revenues	\$153,923	\$(10,027)	) (6.1)%	\$163,950
Gross profit	\$248,132	\$(4,227)	) (1.7)%	\$252,359



## Gross Margin Percentage

Gross margin percentage, which is revenues less costs of revenues divided by revenues, fluctuates based on factors such as the mix of products sold, the cost and proportion of third-party hardware and software included in the systems sold, the offering of product upgrades, price discounts and other sales-promotion programs, the distribution channels through which products are sold, the timing of new product introductions, sales of aftermarket hardware products such as disk drives and currency exchange-rate fluctuations. Our total gross margin percentage for the three-month period ended September 30, 2014 increased to 62.9% from 59.5% for the same period in 2013. Our total gross margin percentage for the nine-month period ended September 30, 2014 increased to 61.7% compared to 60.6% for the same period in 2013. For both 2014 periods, our products gross margin percentages increased, while our services gross margin percentages decreased. The increases in products gross margins in both periods were primarily due to the impact of cost reduction initiatives, partially offset by the impact of the previously discussed lower amortization of deferred revenues attributable to transactions executed on or before December 31, 2010. The services gross margin percentage declines in both periods were due to lower services revenues on relatively fixed costs. As previously discussed, the revenues recognized from the amortization of deferred revenues (that is, the recognition of revenue backlog) attributable to transactions executed on or before December 31, 2010 will continue to decline until the related deferred revenue balance are largely amortized by 2016. These revenues have 100% margins, because the timing of the recognition of the deferred costs did not change as a result of our restatement, and our gross margin percentages will be negatively impacted as these revenues decline.

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

	2014 Gross Margin %	Increase (Decrease) in Gross Margin %	2013 Gross Margin %
Products	64.1%	6.8%	57.3%
Services	59.6%	(4.7)%	64.3%
Total	62.9%	3.4%	59.5%

## Gross Margin % for the Nine Months Ended September 30, 2014 and 2013

	2014 Gross Margin %	Increase (Decrease) in Gross Margin %	2013 Gross Margin %
Products	62.4%	2.1%	60.3%
Services	60.0%	(2.3)%	62.3%
Total	61.7%	1.1%	60.6%

## Operating Expenses and Operating Income

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

	2014 Expenses	Change \$	%	2013 Expenses
Research and development expenses	\$22,154	\$(1,085)	(4.7)%	\$23,239
Marketing and selling expenses	31,410	(102)	(0.3)%	31,512
General and administrative expenses	20,644	(2,071)	(9.1)%	22,715
Amortization of intangible assets	373	(287)	(43.5)%	660
Restructuring costs, net	—	(688)	(100.0)%	688
Total operating expenses	\$74,581	\$(4,233)	(5.4)%	\$78,814

Operating income	\$15,060	\$11,194	289.5%	\$3,866
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Operating Expenses and Operating Income for the Nine Months Ended September 30, 2014 and 2013  
(dollars in thousands)

	2014	Change		2013
	Expenses	\$	%	Expenses
Research and development expenses	\$67,178	\$(3,515)	(5.0)%	\$70,693
Marketing and selling expenses	98,522	(802)	(0.8)%	99,324
General and administrative expenses	58,959	4,516	8.3%	54,443
Amortization of intangible assets	1,251	(730)	(36.9)%	1,981
Restructuring (recoveries) costs, net	(165)	(3,044)	(105.7)%	2,879
Total operating expenses	\$225,745	\$(3,575)	(1.6)%	\$229,320
Operating income	\$22,387	\$(652)	(2.8)%	\$23,039

Research and Development Expenses

Research and development, or R&D, expenses include costs associated with the development of new products and the enhancement of existing products, and consist primarily of employee compensation and benefits; facilities costs; depreciation; costs for consulting and temporary employees; and prototype and other development expenses. R&D expenses decreased \$1.1 million, or 4.7%, for the three-month period ended September 30, 2014, and decreased \$3.5 million, or 5.0%, for the nine-month period ended September 30, 2014, compared to the same periods in 2013.

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

	2014 (Decrease)		
	Increase		
	From 2013		
	\$	%	
Personnel-related expenses	\$(1,714)	(12.0)	)%
Facilities and information technology infrastructure costs	(250)	(6.1)	)%
Computer hardware and supplies expenses	646	98.8	%
Other expenses	233	5.6	%
Total research and development expenses decrease	\$(1,085)	(4.7)	)%

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

	2014 (Decrease)		
	Increase		
	From 2013		
	\$	%	
Personnel-related expenses	\$(3,407)	(8.0)	)%
Facilities and information technology infrastructure costs	(1,027)	(8.1)	)%
Computer hardware and supplies expenses	620	24.5	%
Other expenses	299	2.4	%
Total research and development expenses decrease	\$(3,515)	(5.0)	)%

The decreases in personnel-related expenses and facilities and information technology infrastructure costs for the three- and nine-month periods ended September 30, 2014, compared to the same periods in 2013, reflect headcount reductions which resulted in lower usage of facilities and information technology overhead. The increases in computer hardware and supplies expenses for both 2014 periods are primarily the result of increased new product development

activity in the third quarter of 2014.

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## Marketing and Selling Expenses

Marketing and selling expenses consist primarily of employee compensation and benefits for selling, marketing and pre-sales customer support personnel; commissions; travel expenses; advertising and promotional expenses; and facilities costs. Marketing and selling costs expenses decreased \$0.1 million, or 0.3%, for the three-month period ended September 30, 2014, and decreased \$0.8 million, or 0.8%, for the nine-month period ended September 30, 2014, compared to the same periods in 2013.

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

	2014 Increase (Decrease) From 2013		
	\$	%	%
Personnel-related expenses	\$316	1.0	%
Product introduction expenses	(376)	(97.1)	)%
Foreign exchange (gains) losses	(350)	(109.4)	)%
Other expenses	308	24.5	%
Total marketing and selling expenses decrease	\$(102)	(0.3)	)%

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

	2014 (Decrease) Increase From 2013		
	\$	%	%
Product introduction expenses	\$(3,142)	(100.1)	)%
Personnel-related expenses	40	—	%
Consulting and outside services	1,341	12.9	%
Foreign exchange (gains) losses	1,294	1,748.5	%
Other expenses	(335)	(2.5)	)%
Total marketing and selling expenses decrease	\$(802)	(0.8)	)%

The decreases in product introduction expenses for both 2014 periods were the result of significant new product introductions during the first nine months of 2013, which were not present at the same level in 2014. The increases in personnel-related expenses for the three- and nine-month periods ended September 30, 2014, compared to the same periods in 2013, were primarily the result of increased incentive-based compensation, partially offset by lower travel costs and decreases in salaries and benefits expenses. The increase in consulting and outside services expenses for the nine-month period was primarily the result of costs related to our Avid Customer Association, or ACA, which was launched in September 2013, and the inaugural ACA events, Avid Connect and Avid Connect Europe, which took place in April 2014 and September 2014, respectively. During the nine-month period ended September 30, 2014, net foreign exchange losses (specifically, foreign exchange transaction gains on net monetary assets denominated in foreign currencies), which are included in marketing and selling expenses, were \$1.2 million, compared to gains of \$0.1 million in the 2013 period, resulting in a \$1.3 million offset to the decreases in the other marketing and selling expense categories. We classify these gains and losses within marketing and selling expenses because the gains and losses generally arise from revenue arrangements that are denominated in foreign currencies to facilitate sales in certain foreign jurisdictions.

## General and Administrative Expenses



General and administrative expenses consist primarily of employee compensation and benefits for administrative, executive, finance and legal personnel; audit, legal and strategic consulting fees; and insurance, information systems and facilities costs. Information systems and facilities costs reported within general and administrative expenses are net of allocations to other expenses categories. General and administrative expenses decreased \$2.1 million, or 9.1%, for the three-month period ended September 30, 2014, and increased \$4.5 million, or 8.3%, for the nine-month period ended September 30, 2014, compared to the same periods in 2013.

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

	2014 (Decrease) Increase From 2013		
	\$	%	
Personnel-related expenses	\$(1,127	) (16.1	)%
Consulting and outside services expenses	(1,456	) (11.2	)%
Facilities and information technology infrastructure costs	373	15.5	%
Other expenses	139	41.8	%
Total general and administrative expenses decrease	\$(2,071	) (9.1	)%

Change in General and Administrative Expenses for the Nine Months Ended September 30, 2014 and 2013  
(dollars in thousands)

	2014 Increase (Decrease) From 2013		
	\$	%	
Consulting and outside services expenses	\$6,411	27.8	%
Facilities and information technology infrastructure costs	956	13.1	%
Personnel-related expenses	(2,779	) (12.4	)%
Other expenses	(72	) (4.2	)%
Total general and administrative expenses increase	\$4,516	8.3	%

The decrease in personnel-related expenses for the three-month period ended September 30, 2014, compared to the same period in 2013, was primarily the result of a decrease in stock-based compensation expense, while the decrease in personnel-related expenses for the nine-month period was primarily the result of a decrease in stock-based compensation expense, lower salary and benefit expenses, and 2013 management transition costs that were not present during the 2014 period. The decrease in consulting and outside services expenses for the three-month period was largely the result of consulting fees related to our procurement strategic initiative and revenue accounting services during 2013, both of which were not present at the same levels in the 2014 period. The increase in outside services expenses for the nine-month period was primarily the result of significant costs incurred in the third and fourth quarters of 2013 and first nine months of 2014 related to the restatement of our September 30, 2012 and prior financial statements. Restatement-related expenses are expected to materially abate by the end of 2014. The increases in facilities and information technology infrastructure costs for both 2014 periods were primarily the result of increased usage of facilities costs by the general and administrative function.

Provision for Income Taxes, Net

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

	2014 Provision	Change \$	%	2013 Provision
Provision for income taxes, net	\$365	\$(556	) (60.4)%	\$921

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

	2014	Change	2013
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	Provision	\$	%	Provision
Provision for income taxes, net	\$1,427	\$(720)	(33.5)%	\$2,147

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Our effective tax rate, which represents our tax provision as a percentage of income before tax, was 6.7% and 9.7%, respectively, for the nine-month periods ended September 30, 2014 and 2013. During the nine-month period ended September 30, 2014, there was a net discrete tax benefit of \$0.2 million which is primarily comprised of a \$0.3 million benefit for the reversal of a previously accrued Canada withholding tax penalty. By comparison, during the nine-month period ended September 30, 2013, there were no significant discrete items that impacted the tax provision. No benefit is provided for losses generated in the United States and certain foreign jurisdictions, including Ireland, due to the full valuation allowance on the respective deferred tax assets.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity and Sources of Cash

We have generally funded our operations in recent years through the use of existing cash balances, which we have supplemented from time to time with borrowings under our credit facilities. At September 30, 2014, our principal sources of liquidity included cash and cash equivalents totaling \$22.5 million and available borrowings under our credit facilities as discussed below.

At September 30, 2014, our working capital was \$(173.2) million, compared to \$(133.0) million at December 31, 2013. Our working capital deficit at both dates was largely due to the significant level of deferred revenues recorded, which consist of service obligations that do not represent meaningful cash requirements. As a result of the application of the relevant revenue recognition guidance, we have deferred a significant portion of revenues from sales transactions occurring prior to 2011 to subsequent periods and recorded them as deferred revenues. We have experienced a decrease in cash during 2013 and 2014 due to significantly higher outside professional fees and consultant costs resulting from the restatement-related activities. The use of cash associated with the restatement-related activities is expected to total an additional \$8 million to \$10 million, the majority of which will be paid during the remainder of 2014.

On October 1, 2010, we entered into a Credit Agreement with Wells Fargo Capital Finance LLC, or Wells Fargo, that established two revolving credit facilities with combined maximum availability of up to \$60 million for borrowings or letter of credit guarantees. The actual amount of credit available to us will vary depending upon changes in the level of the respective accounts receivable and inventory, and is subject to other terms and conditions. On August 29, 2014, we entered into an amendment to our Credit Agreement that extended the maturity date from October 1, 2014 to October 1, 2015.

The amended Credit Agreement contains customary representations and warranties, covenants, mandatory prepayments, and events of default under which our payment obligations may be accelerated, including guarantees and liens on substantially all of our assets to secure their obligations under the Credit Agreement. The Credit Agreement requires that Avid Technology, Inc., our parent company, maintain liquidity (comprised of unused availability under its portion of the credit facilities plus certain unrestricted cash and cash equivalents) of \$10.0 million, at least \$5.0 million of which must be from unused availability under its portion of the credit facilities, and our subsidiary, Avid Technology International B.V., or Avid Europe, is required to maintain liquidity (comprised of unused availability under the Avid Europe portion of the credit facilities plus certain unrestricted cash and cash equivalents) of \$5.0 million, at least \$2.5 million of which must be from unused availability under the Avid Europe portion of the credit facilities. The Credit Agreement further limits our ability to access borrowings under the credit facilities in the event capital expenditures, as defined in the Credit Agreement, exceed \$16.0 million for the year ending December 31, 2014 or EBITDA (as defined in the Amendment) of \$33.8 million for the year ending December 31, 2014 is not achieved. Interest accrues on outstanding borrowings under the credit facilities at a rate of either

LIBOR plus 2.75% or a base rate (as defined in the Credit Agreement) plus 1.75%, at the option of Avid Technology, Inc. or Avid Europe, as applicable. We must also pay Wells Fargo a monthly unused line fee at a rate of 0.625% per annum. Any borrowings under the credit facilities are secured by a lien on substantially all the assets of Avid Technology and Avid Europe. See Note 11, Credit Agreement, to our Condensed Consolidated Financial Statements in Item 1 of this Form 10-Q for further detail on our Credit Agreement.

During the nine months ended September 30, 2014, we borrowed \$20.5 million against our credit facilities to meet certain short-term cash requirements, \$12.5 million of which was repaid during the second and third quarters of 2014. At September 30, 2014, we had \$8.0 million short-term outstanding borrowings under our credit facilities. At September 30, 2014, Avid Technology, Inc. and Avid Europe had certain reserves and letters of credit guaranteed under the credit facilities of \$4.0 million and \$0.9 million, respectively, and available borrowings under the credit facilities of \$10.4 million and \$11.6 million, respectively, after taking into consideration reserves, outstanding letters of credit and liquidity covenants.

## Cash Flows

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

	Nine Months Ended September 30,	
	2014	2013
Net cash used in operating activities	\$(20,830	) \$(10,028 )
Net cash used in investing activities	(10,109	) (8,898 )
Net cash provided by (used in) financing activities	7,683	(86 )
Effect of foreign currency exchange rates on cash and cash equivalents	(2,471	) (1,145 )
Net decrease in cash and cash equivalents	\$(25,727	) \$(20,157 )

## Cash Flows from Operating Activities

Cash used in operating activities aggregated \$20.8 million for the nine months ended September 30, 2014. The cash usage during the nine months ended September 30, 2014 was attributable to costs associated with restatement-related activities, and to a lesser extent, payments of incentive-based compensation and restructuring activities. The use of cash associated with the restatement and restructuring activities is expected to materially abate by the end of 2014, and the Company does not anticipate any further significant payments related to incentive-based compensation for the balance of 2014.

## Cash Flows from Investing Activities

For the nine months ended September 30, 2014, the net cash flow used in investing activities reflected \$11.7 million used for the purchase of property and equipment, partially offset by cash of \$1.5 million released from escrow related to our 2012 consumer business divestiture. Our purchases of property and equipment typically consist of computer hardware and software to support R&D activities and information systems.

## Cash Flows from Financing Activities

For the nine months ended September 30, 2014, the net cash flow provided by financing activities primarily reflected borrowings against our credit facilities that had not been repaid as of September 30, 2014. During the nine months ended September 30, 2014, we borrowed \$20.5 million against our credit facilities to meet certain short-term cash requirements, \$12.5 million of which was repaid during the second and third quarters of 2014. At September 30, 2014, we had \$8.0 million in short-term outstanding borrowings under our credit facilities.

## RECENT ACCOUNTING PRONOUNCEMENTS

## Recent Accounting Pronouncements To Be Adopted

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

from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance.

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

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

#### Foreign Currency Exchange Risk

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

We generally use derivatives in the form of foreign currency contracts to manage certain short-term exposures to fluctuations in the foreign currency exchange rates that exist as part of our ongoing international business operations. We do not enter into any derivative instruments for trading or speculative purposes. The success of our hedging programs depends on forecasts of transaction activity in the various currencies and contract rates versus financial statement rates. To the extent these forecasts are overstated or understated during periods of currency volatility, we could experience unanticipated currency gains or losses.

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

In an effort to hedge against the foreign exchange exposure of certain forecasted receivables, intercompany accounts, payables and cash balances, we enter into short-term foreign currency forward contracts. There are two objectives of this foreign currency forward-contract program: (1) to offset any foreign exchange currency risk associated with cash receipts expected to be received from our customers and cash payments expected to be made to our vendors over the next 30-day period and (2) to offset the impact of foreign currency exchange on our net monetary assets denominated in currencies other than the functional currency of the legal entity. These forward contracts typically mature within 30 days of execution. We record gains and losses associated with currency rate changes on these contracts in results of operations, offsetting gains and losses on the related assets and liabilities. At September 30, 2014, we had foreign currency forward contracts outstanding with an aggregate notional value of \$24.7 million, denominated in the euro, British pound, Japanese yen, Danish krone, Canadian dollar, Singapore dollar and Australian dollar as a hedge against actual and forecasted foreign-currency-denominated receivables, payables and cash balances. At September 30, 2014, we also had short-term foreign currency spot and forward contracts with an aggregate notional value of \$4.8 million, denominated in the euro and Japanese yen, as a hedge against the foreign currency exchange risk associated with certain of our net monetary assets denominated in foreign currencies.

We have not designated these forward contracts as hedging instruments pursuant to ASC 815, Derivatives and Hedging and accordingly, we recorded the fair value of these contracts at the end of each reporting period in our consolidated balance sheet, with changes in the fair value recorded in our marketing and selling expenses. During the nine months ended September 30, 2014 and 2013, we recorded net (losses) gains of \$(1.2) million and \$0.1 million, respectively, that resulted from the gains and losses on our foreign currency contracts and the revaluation of the related hedged items.

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



subsidiaries.

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## Interest Rate Risk

At September 30, 2014, we held \$22.5 million in cash and cash equivalents. Due to the short maturities on any instruments held, a hypothetical 10% increase or decrease in interest rates would not have a material impact on our financial position, results of operations or cash flows. We maintain revolving credit facilities that allow us to borrow up to \$60 million. During the nine months ended September 30, 2014, we borrowed \$20.5 million against our credit facilities to meet certain short-term cash requirements, \$12.5 million of which was repaid during the second and third quarters of 2014. At September 30, 2014, we had \$8.0 million short-term outstanding borrowings under our credit facilities. A hypothetical 10% increase or decrease in interest rates paid on outstanding borrowings under the credit line would not have a material impact on our financial position, results of operations or cash flows.

## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

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

Our management, including the Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2014. Based on this evaluation, our management concluded that as of September 30, 2014 these disclosure controls and procedures were not effective at the reasonable assurance level as a result of the material weaknesses in our internal control over financial reporting, which are described in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2013. As discussed below, our internal control over financial reporting is an integral part of our disclosure controls and procedures.

### Changes in Internal Control over Financial Reporting

Under applicable SEC rules (Exchange Act Rules 13a-15(c) and 15d-15(c)) management is required to evaluate any changes in internal control over financial reporting that occurred during each fiscal quarter that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. As discussed in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2013, we have undertaken a broad range of remedial procedures to address the material weaknesses in our internal control over financial reporting. These remedial procedures entailed substantive procedures that were designed to obtain a reasonable level of assurance on financial statement amounts and disclosures. These remedial procedures continued throughout the nine months ended September 30, 2014 and will continue throughout the remainder of 2014. While we continue to implement remediation efforts and design enhancement to our internal control procedures, we do not believe there were any significant changes in internal controls implemented during the nine months ended September 30, 2014.

### Inherent Limitation on the Effectiveness of Internal Controls

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

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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

In June 2013, a purported stockholder of the Company filed a derivative complaint against us as nominal defendant and certain of our current and former directors and officers in the U.S. District Court for the District of Massachusetts. The complaints alleged various violations of state law, including breaches of fiduciary duties, waste of corporate assets and unjust enrichment. The derivative complaint sought, inter alia, a monetary judgment, equitable and/or injunctive relief, restitution, disgorgement and a variety of purported corporate governance reforms. On October 30, 2013, the complaint was dismissed without prejudice. On November 26, 2013, our Board received a letter from the plaintiff in the dismissed derivative suit, demanding that our Board investigate, address and commence proceedings against certain of our directors, officers, employees and agents based on conduct identified in the dismissed complaint. In December 2013, our Board created a committee to conduct an investigation into the allegations in the demand letter. The special committee, with the assistance of independent outside counsel, investigated the allegations in the stockholder's demand letter and, on October 29, 2014, reported its findings to our Board along with its recommendation that the Board not commence proceedings as requested by the stockholder's demand. Our Board unanimously accepted the recommendation of the special committee and, on November 10, 2014, outside counsel for the special committee sent a letter to counsel for the stockholder informing the stockholder of the Board's determination.

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

Our industry is characterized by the existence of a large number of patents and frequent claims and litigation regarding patent and other intellectual property rights. In addition to the legal proceedings described above, we are involved in legal proceedings from time to time arising from the normal course of business activities, including claims of alleged infringement of intellectual property rights and contractual, commercial, employee relations, product or service performance, or other matters. We do not believe these matters will have a material adverse effect on our financial position or results of operations. However, the outcome of legal proceedings and claims brought against us is subject to significant uncertainty. Therefore, our financial position or results of operations may be negatively affected by the

unfavorable resolution of one or more of these proceedings for the period in which a matter is resolved. See Part I - Item 1A under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2013. Our results could be materially adversely affected if we are accused of, or found to be, infringing third parties' intellectual property rights.

#### ITEM 1A. RISK FACTORS

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

ITEM 6. EXHIBITS

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

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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 13, 2014

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

## EXHIBIT INDEX

Exhibit No.	Description	Filed with this Form 10-Q	Incorporated by Reference		SEC File Number
			Form or Schedule	SEC Filing Date	
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.