

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

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from _____ to _____

Commission File Number: 1-36254

Avid Technology, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of

Incorporation or Organization)

04-2977748

(I.R.S. Employer

Identification No.)

75 Network Drive

Burlington, Massachusetts 01803

(Address of Principal Executive Offices, Including Zip Code)

(978) 640-6789

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

(Do not check if smaller reporting company)

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

The number of shares outstanding of the registrant's Common Stock, par value \$0.01, as of November 4, 2015 was 39,504,028.

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

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

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

- our ability to develop, market and sell new products and services;
- our ability to successfully implement our Avid Everywhere strategic plan and other strategic initiatives, including our cost saving strategies;
- anticipated trends relating to our sales, financial condition or results of operations, including our shift to a recurring revenue model and complex enterprise sales with elongated sales cycles;
- our ability to achieve our goal of expanding our market positions;
- the anticipated performance of our products;
- our business strategies and market positioning;
- our ability to successfully consummate acquisitions, or investment transactions and successfully integrate acquired businesses including the acquisition of Orad Hi-Tech Ltd (“Orad”), into our operations;
- our anticipated benefits and synergies from and the anticipated financial impact of any acquired business (including Orad);
- the anticipated trends and developments in our markets and the success of our products in these markets;
- our ability to mitigate and remediate effectively the material weaknesses in our internal control over financial reporting, and the expected timing thereof;
- our capital resources and the adequacy thereof;
- our ability to service our debt and meet the obligations thereunder, including our ability to satisfy our conversion and repurchase obligations under our convertible notes due 2020.
- the outcome, impact, costs and expenses of any litigation or government inquiries to which we are or become subject;
- the effect of the continuing worldwide macroeconomic uncertainty on our business and results of operation;
- the expected timing of recognition of revenue backlog as revenue, and the timing of recognition of revenues from subscription offerings;
- estimated asset and liability values and amortization of our intangible assets;
- our compliance with covenants contained in the agreements governing our indebtedness;
- changes in inventory levels;
- seasonal factors;
- plans regarding repatriation of foreign earnings;
- the risk of restatement of our financial statements; and
- fluctuations in foreign exchange and interest rates.

Actual results and events in future periods may differ materially from those expressed or implied by forward-looking statements in this Form 10-Q. There are a number of factors that could cause actual events or results to differ materially from those indicated or implied by forward-looking statements, many of which are beyond our control, including the risk factors discussed herein and in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 and of this Form 10-Q. In addition, the forward-looking statements contained in this Form 10-Q represent our estimates only as of the date of this filing and should not be

relied upon as representing our estimates as of any subsequent date. While we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, whether to reflect actual results, changes in assumptions, changes in other factors affecting such forward-looking statements or otherwise, except as required by law.

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

PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AVID TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share data, unaudited)

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

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

AVID TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, unaudited)

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

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

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

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

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

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

| | Nine Months Ended September 30, | |
|---|------------------------------------|----------|
| | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Net income | \$6,865 | \$19,797 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 13,936 | 13,721 |
| Recovery from doubtful accounts | (175) | (177) |
| Stock-based compensation expense | 7,731 | 2,718 |
| Non-cash interest expense | 1,544 | 220 |
| Unrealized foreign currency transaction gains | (5,098) | (494) |
| Deferred tax benefit | (6,504) | (6) |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable | 6,844 | 931 |
| Inventories | 4,028 | 6,145 |
| Prepaid expenses and other current assets | 1,772 | 646 |
| Accounts payable | 4,932 | 585 |
| Accrued expenses, compensation and benefits and other liabilities | (17,764) | (14,842) |
| Income taxes payable | 1,268 | (603) |
| Deferred revenues | (55,466) | (49,471) |
| Net cash used in operating activities | (36,087) | (20,830) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (11,110) | (11,660) |
| Payments for business and technology acquisitions, net of cash acquired | (65,967) | — |
| Proceeds from divestiture of consumer business | — | 1,500 |
| (Increase) decrease in other long-term assets | (575) | 51 |
| Increase in restricted cash | (1,047) | — |
| Net cash used in investing activities | (78,699) | (10,109) |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt, net of issuance costs | 120,401 | — |
| Payments for repurchase of common stock | (7,999) | — |
| Cash paid for capped call transaction | (10,125) | — |
| Proceeds from the issuance of common stock under employee stock plans | 3,113 | 1 |
| Common stock repurchases for tax withholdings for net settlement of equity awards | (1,442) | (318) |
| Proceeds from revolving credit facilities | 49,500 | 20,500 |
| Payments on revolving credit facilities | (39,500) | (12,500) |
| Payments for credit facility issuance costs | (1,193) | — |
| Net cash provided by financing activities | 112,755 | 7,683 |
| Effect of exchange rate changes on cash and cash equivalents | (1,045) | (2,471) |
| Net decrease in cash and cash equivalents | (3,076) | (25,727) |
| Cash and cash equivalents at beginning of period | 25,056 | 48,203 |
| Cash and cash equivalents at end of period | \$21,980 | \$22,476 |

Supplemental information:

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

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

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AVID TECHNOLOGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. FINANCIAL INFORMATION

The accompanying condensed consolidated financial statements include the accounts of Avid Technology, Inc. and its wholly owned subsidiaries (collectively, “Avid” or the “Company”). These financial statements are unaudited. However, in the opinion of management, the condensed consolidated financial statements reflect all normal and recurring adjustments necessary for their fair statement. Interim results are not necessarily indicative of results expected for any other interim period or a full year. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and footnotes necessary for a complete presentation of operations, comprehensive (loss) income, financial position and cash flows of the Company in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The accompanying condensed consolidated balance sheet as of December 31, 2014 was derived from the Company’s audited consolidated financial statements and does not include all disclosures required by U.S. GAAP for annual financial statements. The Company filed audited consolidated financial statements as of and for the year ended December 31, 2014 in its Annual Report on Form 10-K for the year ended December 31, 2014, which included all information and footnotes necessary for such presentation. The financial statements contained in this Form 10-Q should be read in conjunction with the audited consolidated financial statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

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

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

Significant Accounting Policies - Revenue Recognition

General

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

At the time of a sales transaction, the Company makes an assessment of the collectability of the amount due from the customer. Revenues are recognized only if it is reasonably assured that collection will occur. When making this assessment, the Company considers customer credit-worthiness and historical payment experience. If it is determined from the outset of the arrangement that collection is not reasonably assured, revenues are recognized on a cash basis, provided that all other revenue recognition criteria are satisfied. At the outset of the arrangement, the Company also assesses whether the fee associated with the order is fixed or determinable and free of contingencies or significant uncertainties. When assessing whether the fee is fixed or determinable, the Company considers the payment terms of the transaction, the Company's collection experience in similar transactions without making concessions, and the Company's involvement, if any, in third-party financing transactions, among other factors. If the fee is not fixed or determinable, revenues are recognized only as payments become due from the customer, provided that all other revenue recognition criteria are met. If a significant portion of the fee is due after the Company's normal

payment terms, the Company evaluates whether the Company has sufficient history of successfully collecting past transactions with similar terms without offering concessions. If that collection history is sufficient, revenue recognition commences, upon delivery of the products, assuming all other revenue recognition criteria are satisfied. If the Company was to make different judgments or assumptions about any of these matters, it could cause a material increase or decrease in the amount of revenues reported in a particular period.

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

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

Over the course of the last 18 months, in connection with a strategic initiative to increase support and other recurring revenue streams, the Company has taken a number of steps to eliminate the longstanding practice of providing Implied Maintenance Release PCS for the Media Composer, Pro Tools and Sibelius product lines. On Media Composer 8.0 in particular, which was released in May 2014, management has (i) clearly communicated a policy of no longer providing any Software Updates or other support to customers that are not covered under a paid support plan and (ii) implemented robust digital rights management tools to enforce the policy. With the new policy and technology for Media Composer 8.0 in place, combined with management's intent to continue to adhere to the policy, management concluded in the third quarter of 2015 that Implied Maintenance Release PCS for Media Composer 8.0 transactions no longer exists. As a result of the conclusion that Implied Maintenance Release PCS on Media Composer 8.0 has ended, revenue and net income for the three and nine months ended September 30, 2015 increased by approximately \$13.0 million, reflecting the recognition of orders received over the last 18 months that would have qualified for earlier recognition using the residual method of accounting. In addition, as the elimination of Implied Maintenance Release PCS also resulted in the accelerated recognition of maintenance and product revenues that were previously being recognized over the expected period of Implied Maintenance Release PCS rather than the contractual maintenance period, the change in the estimated amortization period of transactions being recognized on a ratable basis resulted in an additional \$2.5 million of revenue during the three and nine months ended September 30, 2015. Management will continue to evaluate the judgment of whether Implied Maintenance Release PCS exists on each product line and version. If and when management concludes Implied Maintenance Release PCS no longer exists for other product lines or versions in future quarters, software revenue related to orders affected will be accelerated and prospective revenue recognition on new product orders will be recognized upfront, assuming all other revenue recognition criteria are met and VSOE of fair value exists for all undelivered elements.

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

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

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

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

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

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

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

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

Revenue Recognition of Non-Software Deliverables

Revenue from products that are considered non-software deliverables is recognized upon delivery of the product to the customer. Products are considered delivered to the customer once they have been shipped and title and risk of loss has been transferred. For most of the Company's product sales, these criteria are met at the time the product is shipped. Revenue from support that is considered a non-software deliverable is initially deferred and is recognized ratably over the contractual period of the arrangement, which is generally 12 months. Professional services and training services are typically sold to customers on a time and materials basis. Revenue from professional services and training services that are considered non-software deliverables is recognized for these deliverables as services are provided to the customer. Revenue for Implied Maintenance Release PCS that is considered a non-software deliverable is recognized

ratably over the service period of Implied Maintenance Release PCS, which ranges from 1 to 8 years.

Revenue Recognition of Software Deliverables

The Company recognizes the following types of elements sold using software revenue recognition guidance: (i) software products and software upgrades, when the software sold in a customer arrangement is more than incidental to the arrangement as a whole and the product does not contain hardware that functions with the software to provide essential functionality, (ii) initial support contracts where the underlying product being supported is considered to be a software deliverable, (iii) support contract renewals, and (iv) professional services and training that relate to deliverables considered to be software deliverables. Because the Company does not have VSOE of the fair value of its software products, the Company is permitted to account for its typical

customer arrangements that include multiple elements using the residual method. Under the residual method, the VSOE of fair value of the undelivered elements (which could include support, professional services or training, or any combination thereof) is deferred and the remaining portion of the total arrangement fee is recognized as revenue for the delivered elements. If evidence of the VSOE of fair value of one or more undelivered elements does not exist, revenues are deferred and recognized when delivery of those elements occurs or when VSOE of fair value can be established. VSOE of fair value is typically based on the price charged when the element is sold separately to customers. The Company is unable to use the residual method to recognize revenues for many arrangements that include products that are software deliverables under GAAP since VSOE of fair value does not exist for Implied Maintenance Release PCS elements, which are included in a majority of the Company's arrangements.

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

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

Recent Accounting Pronouncements to be Adopted

On May 28, 2014, the Financial Accounting Standards Board (the "FASB") and the International Accounting Standards Board (the "IASB") issued substantially converged final standards on revenue recognition. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The new revenue recognition guidance becomes effective for the Company on January 1, 2018, and early adoption as of January 1, 2017 is permitted. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance in the Accounting Standards Update ("ASU"). The Company has not yet selected a transition method and is evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

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

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern. ASU 2014-15 provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a

company's ability to continue as a going concern within one year from the date the financial statements are issued. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The Company is evaluating the potential impact of adopting this standard on its financial statements.

2. NET INCOME PER SHARE

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

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

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

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

On June 15, 2015, the Company issued \$125.0 million aggregate principal amount of its 2.00% Convertible Senior Notes due 2020 (the "Notes"). The Notes are convertible into cash, shares of the Company's common stock or a combination of cash and shares of common stock, at the Company's election, based on an initial conversion rate, subject to adjustment. In connection with the offering of the Notes, the Company entered into a capped call transaction with a third party (the "Capped Call") (see Note 12, Long-Term Debt and Credit Agreement). The Company uses the treasury stock method in computing the Diluted EPS impact of the Notes. The Notes are convertible into shares but the Company's stock price was less than the conversion price at September 30, 2015. The Capped Call is not reflected in Diluted EPS as it will always be anti-dilutive.

3. ACQUISITION

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

\$5.6 million, which was recorded as general and administrative expenses in the Company's statement of operations. Orad provides 3D real-time graphics, video servers and related asset management solutions. The acquisition adds applications to Avid's Studio Suite which the Company intends to connect to the Avid MediaCentral Platform.

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

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

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

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

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

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

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

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

| | Three Months Ended | | Nine Months Ended | |
|------------------------------|--------------------|---------|-------------------|---------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Net revenues | 137,436 | 152,881 | 382,041 | 432,011 |
| Net income (loss) | 11,118 | 12,728 | (541) | 15,117 |
| Net income (loss) per share: | | | | |
| Basic | 0.28 | 0.33 | (0.01) | 0.39 |
| Diluted | 0.28 | 0.32 | (0.01) | 0.39 |

4. 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, which typically mature within 30 days of execution. 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. The Company had no outstanding foreign currency forward contracts at September 30, 2015. The Company had foreign currency forward contracts outstanding with an aggregate notional value of \$25.4 million at December 31, 2014 as hedges against such forecasted foreign-currency-denominated receivables, payables and cash balances.

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. The Company had no outstanding short-term foreign currency spot contracts at September 30, 2015. The Company had foreign currency contracts outstanding with an aggregate notional value of \$2.8 million at December 31, 2014. Because these contracts are not accounted for as hedges, the changes in fair value of these foreign currency contracts are recorded as gains or losses in the Company's statement of operations.

The Company also assumed from Orad outstanding foreign currency spot contracts and call and put options to hedge cash flow risks associated with foreign exchange rates. The aggregate notional value of the outstanding contracts and options was \$5.8 million at September 30, 2015.

The following table sets forth the balance sheet classification and fair values of the Company's foreign currency contracts (in thousands):

| Derivatives Not Designated as Hedging Instruments under Accounting Standard Codification ("ASC") Topic 815 | Balance Sheet Classification | Fair Value at September 30, 2015 | Fair Value at December 31, 2014 |
|--|--|----------------------------------|---------------------------------|
| Financial liabilities: | | | |
| Foreign currency contracts | Accrued expenses and other current liabilities | \$42 | \$518 |

The following table sets forth the net foreign exchange gains (losses) recorded as marketing and selling expenses in the Company's statements of operations during the three and nine months ended September 30, 2015 and 2014 that resulted from foreign currency forward contracts, foreign currency denominated transactions, and the revaluation of foreign currency denominated assets and liabilities (in thousands):

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| | Three Months Ended September | | Nine Months Ended September | |
|---|------------------------------|------|-----------------------------|-----------|
| | 30, 2015 | 2014 | 30, 2015 | 2014 |
| Net foreign exchange gain (loss) recorded in marketing and selling expenses | \$(75) | \$30 | \$497 | \$(1,220) |

See Note 5, Fair Value Measurements, 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.

5. 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, and insurance contracts held in deferred compensation plans. At September 30, 2015 and December 31, 2014, 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, primarily insurance contracts.

The following tables summarize the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis (in thousands):

| | September 30, 2015 | 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) | \$4,623 | \$1,089 | \$3,534 | \$— |
| Financial liabilities: | | | | |
| Foreign currency contracts | \$42 | \$— | \$42 | \$— |
| | December 31, 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 | \$1,859 | \$1,245 | \$614 | \$— |
| Financial liabilities: | | | | |
| Foreign currency contracts | \$518 | \$— | \$518 | \$— |

(1) Deferred compensation assets at September 30, 2015 included \$2.9 million of funds that Orad invested in insurance contracts for the post-employment benefits that Orad employees earned.

Financial Instruments Not Recorded at Fair Value

The carrying amounts of the Company's other financial assets and liabilities including cash, accounts receivable, accounts payable and accrued liabilities approximate their respective fair values because of the relatively short period of time between their origination and their expected realization or settlement. The fair value of the Notes at September 30, 2015 is approximately \$87.8

million based on open market trading activity, which constitutes a Level 1 input in the fair value hierarchy. See Note 12, Long Term Debt and Credit Agreement, for additional information.

6. INVENTORIES

Inventories consisted of the following (in thousands):

| | September 30, 2015 | December 31, 2014 |
|-----------------|-----------------------|----------------------|
| Raw materials | \$10,171 | \$9,942 |
| Work in process | 1,302 | 248 |
| Finished goods | 37,311 | 37,811 |
| Total | \$48,784 | \$48,001 |

At September 30, 2015 and December 31, 2014, finished goods inventory included \$4.4 million and \$4.3 million, respectively, associated with products shipped to customers and deferred labor costs for arrangements where revenue recognition had not yet commenced.

7. 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 (in thousands):

| | September 30, 2015 | | | December 31, 2014 | | |
|------------------------------------|--------------------|-----------------------------|----------|-------------------|-----------------------------|---------|
| | Gross | Accumulated Amortization | Net | Gross | Accumulated Amortization | Net |
| Completed technologies and patents | \$82,506 | \$ (53,418) | \$29,088 | \$51,950 | \$ (51,950) | \$— |
| Customer relationships | 54,739 | (48,007) | 6,732 | 49,216 | (46,771) | 2,445 |
| Trade names | 6,107 | (5,961) | 146 | 5,936 | (5,936) | — |
| Capitalized software costs | 5,033 | (5,033) | — | 5,043 | (5,043) | — |
| Total | \$148,385 | \$ (112,419) | \$35,966 | \$112,145 | \$ (109,700) | \$2,445 |

Amortization expense related to all intangible assets in the aggregate was \$2.7 million and \$0.4 million, respectively, for the three months ended September 30, 2015 and 2014 and \$3.7 million and \$1.4 million, respectively, for the nine months ended September 30, 2015 and September 30, 2014. The Company expects amortization of acquired intangible assets to be \$2.7 million for the remainder of 2015, \$10.3 million in 2016, \$9.3 million in 2017, \$9.3 million in 2018, and \$4.4 million in 2019.

8. OTHER LONG-TERM LIABILITIES

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

| | September 30, 2015 | December 31, 2014 |
|---------------------------------|-----------------------|----------------------|
| Long-term deferred rent | \$7,139 | \$8,236 |
| Long-term accrued restructuring | 901 | 1,334 |
| Long-term deferred compensation | 8,634 | 4,703 |
| Total | \$16,674 | \$14,273 |

9. CONTINGENCIES

In March 2013 and May 2013, two purported securities class action lawsuits were filed against the Company and certain of the Company's 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

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common stock between October 23, 2008 and March 20, 2013. The consolidated amended complaint, which named the Company, certain of the Company's current and former executive officers and the Company's 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 (the "Exchange Act") 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. On December 31, 2014, the parties reached an agreement to settle the case. The agreement called for Avid to cause payment of \$2.5 million in respect of the settlement. The settlement was approved and the case was dismissed on May 12, 2015.

In April and May 2013, the Company received a document preservation request and inquiry from the SEC Division of Enforcement 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 the Company's accounting review and revenue transactions. On August 13, 2015, the Company received a letter from the SEC Division of Enforcement stating that the investigation had been completed and that the Division of Enforcement did not intend to recommend any enforcement action against the Company by the SEC. On October 20, 2015, the Company was notified by the Department of Justice that the Department of Justice intends to close its inquiry.

The Company's industry is characterized by the existence of a large number of patents and frequent claims and litigation regarding patent and other intellectual property rights. In addition to the legal proceedings described above, the Company is involved in legal proceedings from time to time arising from the normal course of business activities, including claims of alleged infringement of intellectual property rights and contractual, commercial, employee relations, product or service performance, or other matters. The Company does not believe these matters will have a material adverse effect on the Company's financial position or results of operations. However, the outcome of legal proceedings and claims brought against the Company is subject to significant uncertainty. Therefore, the Company's financial position or results of operations may be negatively affected by the unfavorable resolution of one or more of these proceedings for the period in which a matter is resolved. The Company's results could be materially adversely affected if the Company is accused of, or found to be, infringing third parties' intellectual property rights.

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

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

At September 30, 2015 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 other 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, 2015, be eligible to draw against the letters of credit to a maximum of \$1.3 million in the aggregate. The letters of credit are subject to aggregate reductions provided the Company is not in default under the underlying leases and meets certain financial performance conditions. In no case will the letters of credit amounts be reduced to below \$1.2 million in the aggregate throughout the lease periods, all of which extend to May 2020. Also, the Company has letters of credit totaling \$1.3 million that support its ongoing operations. These letters of credit have various terms and expire during 2015 and beyond, and some of the letters of credit may

automatically renew based on the terms of the underlying agreements. In connection with the Company entering into the Credit Facility disclosed in Note 12, Long Term Debt and Credit Agreement, the lenders underwriting these letters of credit required the Company to place \$2.3 million in a restricted cash account in June 2015. Of this amount, \$1.3 million was returned to the Company in Q3 2015 and the remaining \$1.0 million is scheduled to be returned to the Company during the quarter ended December 31, 2015.

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, 2015 and 2014 (in thousands):

| | Nine Months Ended September 30, | |
|--------------------------------------|---------------------------------|----------|
| | 2015 | 2014 |
| Accrual balance at beginning of year | \$2,792 | \$3,501 |
| Accruals for product warranties | 2,429 | 4,943 |
| Costs of warranty claims | (2,747 |) (5,018 |
| Accrual balance at end of period | \$2,474 | \$3,426 |

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

10. RESTRUCTURING COSTS AND ACCRUALS

In June 2015, the Company recorded a revision of restructuring costs of \$0.5 million resulting from an update to the sublease assumption related to the Company’s Mountain View, California facility that was partially abandoned in 2012.

The accrual balance of prior restructuring plans was \$1.9 million at September 30, 2015, mainly related to the closure of part of the Company’s Mountain View, California, and Dublin, Ireland facilities under restructuring plans that were made in 2012 and 2008. No further restructuring actions are anticipated under those plans, however, new restructuring plans may occur in the future.

Restructuring Summary

The following table sets forth the activity in the restructuring accruals for the nine months ended September 30, 2015 (in thousands):

| | Employee-Related | Facilities/Other-Related | Total |
|---|------------------|--------------------------|----------|
| Accrual balance at December 31, 2014 | \$58 | \$2,285 | \$2,343 |
| Revisions of estimated liabilities | — | 539 | 539 |
| Accretion | — | 166 | 166 |
| Cash payments | (58 |) (994 |) (1,052 |
| Foreign exchange impact on ending balance | — | (55 |) (55 |
| Accrual balance at September 30, 2015 | \$— | \$1,941 | \$1,941 |

The facilities/other-related accruals at September 30, 2015 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/other-related accruals, \$1.0 million is included in the caption "accrued expenses and other current liabilities" and \$0.9 million is included in the caption "other long-term liabilities" in the Company's condensed consolidated balance sheet at September 30, 2015.

11. PRODUCT AND GEOGRAPHIC INFORMATION

The Company, through the evaluation of the discrete financial information that is regularly reviewed by the chief operating decision makers, which consist of 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, 2015 and 2014 (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|-----------|---------------------------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Video products and solutions net revenues | \$62,851 | \$63,275 | \$152,798 | \$178,849 |
| Audio products and solutions net revenues | 26,094 | 42,055 | 92,326 | 108,366 |
| Products and solutions net revenues | 88,945 | 105,330 | 245,124 | 287,215 |
| Services net revenues | 48,491 | 37,099 | 121,665 | 114,840 |
| Total net revenues | \$137,436 | \$142,429 | \$366,789 | \$402,055 |

The following table sets forth the Company's revenues by geographic region for the three and nine months ended September 30, 2015 and 2014 (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------|----------------------------------|-----------|---------------------------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues: | | | | |
| United States | \$48,146 | \$54,215 | \$135,225 | \$143,947 |
| Other Americas | 10,212 | 10,895 | 24,384 | 35,505 |
| Europe, Middle East and Africa | 55,061 | 58,099 | 151,314 | 167,621 |
| Asia-Pacific | 24,017 | 19,220 | 55,866 | 54,982 |
| Total net revenues | \$137,436 | \$142,429 | \$366,789 | \$402,055 |

12. LONG TERM DEBT AND CREDIT AGREEMENT

2.00% Convertible Senior Notes due 2020

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

The Notes pay interest semi-annually on June 15 and December 15 of each year, beginning on December 15, 2015, at an annual rate of 2.00% and mature on June 15, 2020 unless earlier converted or repurchased in accordance with their terms prior to such date. Additional interest may be payable upon the occurrence of certain event of default relating to the Company's failure to deliver certain documents or reports to the Trustee, the Company's failure to timely file any document or report required pursuant to Section 13 or 15(d) of the Exchange Act or if the Notes are not freely tradable as of one year after the last date of original issuance of the Notes. The Notes are convertible into cash, shares of the Company's common stock or a combination of cash and shares of common stock, at the Company's election, based on an initial conversion rate, subject to adjustment, of 45.5840 shares per \$1,000 principal amount of Notes, which is equal to an initial conversion price of \$21.94 per share. Prior to December 15, 2019, the Notes are convertible only in the following circumstances: (1) during any calendar quarter commencing after September 30, 2015, if the last reported sale price of the Company's common stock is greater than or equal to 130% of the applicable conversion price for at least 20 trading days during a period of 30 consecutive trading days ending on the last trading day of the

preceding calendar quarter; (2) during the five business day period after any five consecutive trading day period (the "Measurement Period") in which the trading price per \$1,000 principal amount of notes for each trading day in the Measurement Period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on such trading day; or (3) upon the occurrence of specified corporate transactions. On or after December 15, 2019 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time, regardless of the foregoing circumstances. The Company may not redeem the Notes prior to their maturity, which means that the Company is not required to redeem or retire the Notes periodically.

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

In accounting for the Notes at issuance, the Company allocated proceeds from the Notes into debt and equity components according to the accounting standards for convertible debt instruments that may be fully or partially settled in cash upon conversion. The initial carrying amount of the debt component, which approximates its fair value, was estimated by using an interest rate for nonconvertible debt, with terms similar to the Notes. The excess of the principal amount of the Notes over the fair value of the debt component was recorded as a debt discount and a corresponding increase in additional paid-in capital. The debt discount is accreted to the carrying value of the Notes over their term as interest expense using the interest method. Upon issuance of the Notes, the Company recorded \$96.7 million as debt and \$28.3 million as additional paid-in capital in stockholders' equity. The effective interest rate used to estimate the fair value of the debt was is 7.66%. The Company recorded \$1.5 million debt discount accretion as interest expenses in the Company's statement of operations for the nine months ended September 30, 2015. Total interest expense for the nine months ended September 30, 2015 was \$2.3 million, reflecting the coupon and accretion of the discount.

In connection with the issuance of the Notes, the Company recorded an income tax benefit of \$6.5 million as a discrete item for the nine month period ended September 30, 2015 as a result of the creation of a deferred tax liability associated with the portion of the Notes that was classified within stockholders' equity. While GAAP requires the offset of the deferred tax liability to be recorded in additional paid-in capital, consistent with the equity portion of the Notes, the creation of the deferred tax liability produced evidence of recoverability of deferred tax assets, which resulted in the release of a valuation allowance, totaling \$6.5 million, reflected as an income tax benefit in the current period due to the Company having generated losses in the US for the nine months ended September 30, 2015. To the extent the Company generates positive income for the 12 months ended December 31, 2015, some or all of the \$6.5 million benefit would have to be reversed in the fourth quarter of 2015. In addition, there are significant judgments inherent in assessing the deductibility of certain offering costs incurred in connection with the offering of the Notes and changes in those judgments could result in additional changes in the provision for income taxes.

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

The net carrying amount of the liability component of the Notes consists of the following (in thousands):

| | |
|--------------------------------------|--------------------|
| | September 30, 2015 |
| Principal amount of notes | \$ 125,000 |
| Original debt discount due to: | |
| Allocation of proceeds to equity | (28,298) |
| Allocation of issuance costs to debt | (3,641) |
| Accumulated accretion | 1,544 |
| Net carrying value | \$94,605 |

Capped Call Transaction

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

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

Credit Facility

On June 22, 2015, the Company entered into a credit agreement with various lenders (the "Lenders") and KeyBank National Association, as administrative agent. Pursuant to the credit agreement, the Lenders agreed to provide a revolving credit facility (the "Credit Facility") that allows the Company to borrow up to a maximum of \$35.0 million outstanding at any time. The Company may increase the total commitments under the Credit Facility by up to an additional \$15.0 million, subject to certain conditions. The Credit Facility terminates, and all outstanding loans become due and payable, on December 15, 2019. Prior to the maturity of the Credit Facility, any amounts borrowed may be repaid and, subject to the terms and conditions of the Credit Facility, borrowed again whole or in part without penalty. As of September 30, 2015, the Company had \$10.0 million in outstanding borrowings under the Credit Facility.

Interest accrues on outstanding borrowings under the Credit Facility at a rate of a Eurodollar Rate (as defined in the Credit Facility) plus 2.00% or a Base Rate (as defined in the Credit Facility) plus 1.00%, at the option of the Company. The Company must also pay to the Lenders, on a quarterly basis, an unused line fee at a rate of 0.25% per annum. During the term of the Credit Facility, the Company is entitled to reduce the maximum amounts of the Lenders' commitments, subject to the payment of certain fees based on the amount of any reduction.

Borrowings under the Credit Facility are secured by substantially all of the assets of the Company. The Credit Facility requires the Company to comply with a leverage ratio and interest coverage ratio and also contains customary representations and warranties, covenants, dividend restrictions, mandatory prepayments and events of default under which the Company's payment obligations may be accelerated.

Concurrently with the entry into the Credit Facility, on June 22, 2015, the Company terminated its credit agreement dated October 1, 2010.

13. STOCKHOLDERS' EQUITY

Stock Repurchases

On June 8, 2015, the Company's Board of Directors approved a stock repurchase plan authorizing the Company to repurchase up to \$9.0 million of common stock in open market or other transactions from time to time until September 6, 2015. The Company completed the stock repurchase in July 2015. In aggregate, the Company purchased 586,825 shares for a total purchase price of \$8.0 million. The repurchased shares are held in treasury.

Stock-Based Compensation

Information with respect to option shares granted under all the Company's stock incentive plans for the nine months ended September 30, 2015 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, 2015 | 5,564,111 | — | 5,564,111 | \$11.20 | | |
| Granted | 4,000 | — | 4,000 | \$9.10 | | |
| Exercised | (201,153) | — | (201,153) | \$11.63 | | |
| Forfeited or canceled | (444,668) | — | (444,668) | \$16.26 | | |
| Options outstanding at September 30, 2015 | 4,922,290 | — | 4,922,290 | \$10.72 | 3.83 | \$989 |
| Options vested at September 30, 2015 or expected to vest | | | 4,842,392 | \$10.77 | 3.80 | \$955 |
| Options exercisable at September 30, 2015 | | | 3,936,952 | \$11.47 | 3.42 | \$562 |

Information with respect to the Company's non-vested restricted stock units for the nine months ended September 30, 2015 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, 2015 | 811,880 | — | 811,880 | \$10.01 | | |
| Granted | 651,274 | 438,146 | 1,089,420 | \$13.49 | | |
| Vested | (374,307) | — | (374,307) | \$10.17 | | |