

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

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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, 2016  
OR

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

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

Commission File Number: 1-36254

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Avid Technology, Inc.  
(Exact Name of Registrant as Specified in Its Charter)  
Delaware 04-2977748  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)  
75 Network Drive  
Burlington, Massachusetts 01803  
(Address of Principal Executive Offices, Including Zip Code)

(978) 640-6789  
(Registrant's Telephone Number, Including Area Code)

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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 x

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

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

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- our ability to successfully implement our Avid Everywhere strategic plan and other strategic initiatives, including our cost saving strategies;
  - our ability to develop, market and sell new products and services;
  - anticipated trends relating to our sales, financial condition or results of operations, including our shift to a recurring revenue model and complex enterprise sales with elongated sales cycles;
  - our ability to achieve our goal of expanding our market positions;
  - the anticipated performance of our products;
  - our business strategies and market positioning;
  - our ability to successfully consummate acquisitions, or investment transactions and successfully integrate acquired businesses including the acquisition of Orad Hi-Tech Ltd (“Orad”), into our operations;
  - our anticipated benefits and synergies from and the anticipated financial impact of any acquired business (including Orad);
  - the anticipated trends and developments in our markets and the success of our products in these markets;
  - our ability to effectively mitigate and remediate the material weaknesses in our internal control over financial reporting, and the expected timing thereof;
  - our capital resources and the adequacy thereof;
  - our ability to service our debt and meet the obligations thereunder, including our ability to satisfy our conversion and repurchase obligations under our convertible notes due 2020;
  - the outcome, impact, costs and expenses of any litigation or government inquiries to which we are or become subject;
  - the effect of the continuing worldwide macroeconomic uncertainty on our business and results of operation, including Brexit;
  - the expected timing of recognition of revenue backlog as revenue, and the timing of recognition of revenues from subscription offerings;
  - estimated asset and liability values and amortization of our intangible assets;
  - our compliance with covenants contained in the agreements governing our indebtedness;
  - changes in inventory levels;
  - seasonal factors;
  - plans regarding repatriation of foreign earnings;
  - fluctuations in foreign exchange and interest rates; and
  - the risk of restatement of our financial statements.
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Actual results and events in future periods may differ materially from those expressed or implied by forward-looking statements in this Form 10-Q. There are a number of factors that could cause actual events or results to differ materially from those indicated or implied by forward-looking statements, many of which are beyond our control, including the risk factors discussed herein and in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015, in Part II, Item 1A of our quarterly reports for the quarters ended March 31, 2016 and June 30, 2016 and in other documents we filed from time to time with the U.S. Securities and Exchange Commission (“SEC”). In addition, the forward-looking statements contained in this Form 10-Q represent our estimates only as of the date of this filing and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, whether to reflect actual results, changes in assumptions, changes in other factors affecting such forward-looking statements or otherwise, except as required by law.

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

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## PART I - FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## AVID TECHNOLOGY, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share data, unaudited)

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

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

AVID TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, unaudited)

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

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

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

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

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



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

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$42,998	\$6,865
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	19,169	13,936
Provision (recovery) for doubtful accounts	890	(175 )
Stock-based compensation expense	6,116	7,731
Non-cash provision for restructuring	1,137	—
Non-cash interest expense	7,935	1,544
Unrealized foreign currency transaction losses (gains)	2,021	(5,098 )
Benefit for deferred taxes	(5,187 )	(6,504 )
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	17,057	6,844
Inventories	(7,561 )	4,028
Prepaid expenses and other current assets	(1,493 )	1,772
Accounts payable	(19,627 )	4,932
Accrued expenses, compensation and benefits and other liabilities	(4,384 )	(17,764)
Income taxes payable	347	1,268
Deferred revenues	(108,343)	(55,466)
Net cash used in operating activities	(48,925 )	(36,087)
Cash flows from investing activities:		
Purchases of property and equipment	(9,681 )	(11,110)
Payments for business and technology acquisitions, net of cash acquired	—	(65,967)
Increase in other long-term assets	(17 )	(575 )
Increase in restricted cash	(4,544 )	(1,047 )
Net cash used in investing activities	(14,242 )	(78,699)
Cash flows from financing activities:		
Proceeds from long-term debt	100,000	120,401
Repayment of debt	(2,500 )	