AVID TECHNOLOGY, INC.
Form 10-Q
September 12, 2014

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

FORM 10-Q
(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2013

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: 0-21174

Avid Technology, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	04-2977748
(State or Other Jurisdiction of Incorporation or Organization)	(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 x

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 x

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 x
Non-accelerated Filer ¨ (Do not check if smaller reporting company)	Smaller Reporting Company ¨

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 as of August 29, 2014 was 39,159,269.

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This Quarterly Report on 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 include, but are not limited to, statements regarding:

- 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;
- business strategies and market positioning;
- the impact and 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 and valuations of investments and derivative instruments; and
- fluctuations in foreign exchange and interest rates.

Forward-looking statements may be identified by use of forward-looking words, such as “anticipate,” “believe,” “confidence,” “could,” “estimate,” “expect,” “feel,” “intend,” “may,” “plan,” “should,” “seek,” “will” and “would,” or similar Actual results and events in future periods may differ materially from those expressed or implied by these forward-looking statements. 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 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, 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 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 September 30,		Nine Months Ended September 30,	
	2013	2012 (Restated)	2013	2012 (Restated)
Net revenues:				
Products	$92,969	$109,684	$291,545	$362,381
Services	45,924	40,923	124,764	112,853
Total net revenues	138,893	150,607	416,309	475,234
Cost of revenues:				
Products	39,683	38,357	115,600	134,822
Services	16,372	16,662	47,040	47,402
Amortization of intangible assets	158	634	1,310	1,928
Total cost of revenues	56,213	55,653	163,950	184,152
Gross profit	82,680	94,954	252,359	291,082
Operating expenses:				
Research and development	23,239	23,207	70,693	75,928
Marketing and selling	31,512	33,941	99,324	118,096
General and administrative	22,715	10,905	54,443	38,604
Amortization of intangible assets	660	782	1,981	3,499
Restructuring costs, net	688	9,831	2,879	24,712
Total operating expenses	78,814	78,666	229,320	260,839
Operating income	3,866	16,288	23,039	30,243
Interest income	76	50	271	195
Interest expense	(441)	(405)	(1,150)	(1,155)
Other income, net	2	37	11	69
Income from continuing operations before income taxes	3,503	15,970	22,171	29,352
Provision for income taxes, net	921	1,194	2,147	2,930
Income from continuing operations, net of tax	2,582	14,776	20,024	26,422
Discontinued operations:				
Gain on divestiture of consumer business	—	37,972	—	37,972
Income from divested operations	—	—	—	7,832
Income from discontinued operations	—	37,972	—	45,804
Net income	$2,582	$52,748	$20,024	$72,226
Income per common share – basic and diluted:				
Income per share from continuing operations, net of tax – basic and diluted	$0.07	$0.38	$0.51	$0.68
Income per share from discontinued operations – basic and diluted	—	0.98	—	1.18
Net income per common share – basic and diluted	$0.07	$1.36	$0.51	$1.86
Weighted-average common shares outstanding – basic	39,075	38,859	39,031	38,767
Weighted-average common shares outstanding – diluted	39,076	38,890	39,066	38,819

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

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AVID TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012 (Restated)	2013	2012 (Restated)
Net income	$2,582	$52,748	$20,024	$72,226
Other comprehensive income (loss):				
Foreign currency translation adjustments	2,414	2,414	(1,292)	1,320
Comprehensive income	$4,996	$55,162	$18,732	$73,546

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, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 50,233	$ 70,390
Accounts receivable, net of allowances of $15,293 and $20,977 at September 30, 2013 and December 31, 2012, respectively	55,560	67,956
Inventories	61,670	69,143
Deferred tax assets, net	562	586
Prepaid expenses	8,074	9,060
Other current assets	21,354	19,950
Total current assets	197,453	237,085
Property and equipment, net	36,940	41,441
Intangible assets, net	5,674	9,217
Long-term deferred tax assets, net	2,857	2,825
Other long-term assets	2,488	3,793
Total assets	$ 245,412	$ 294,361
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 30,583	$ 35,425
Accrued compensation and benefits	23,604	25,177
Accrued expenses and other current liabilities	36,916	34,003
Income taxes payable	7,328	7,969
Deferred tax liabilities, net	196	203
Deferred revenues	219,178	230,305
Total current liabilities	317,805	333,082
Long-term deferred tax liabilities, net	708	713
Long-term deferred revenue	273,143	328,180
Other long-term liabilities	14,985	17,978
Total liabilities	606,641	679,953
Contingencies (Note 10)		
Stockholders' deficit:		
Common stock	423	423
Additional paid-in capital	1,042,249	1,039,562
Accumulated deficit	(1,337,655)	(1,357,679)
Treasury stock at cost, net of reissuances	(72,599)	(75,542)
Accumulated other comprehensive income	6,353	7,644
Total stockholders' deficit	(361,229)	(385,592)
Total liabilities and stockholders' deficit	$ 245,412	$ 294,361

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

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

	Nine Months Ended September 30,	
	2013	2012 (Restated)
Cash flows from operating activities:		
Net income	$20,024	$72,226
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	16,970	20,944
Provision for (recovery of) doubtful accounts	140	(65)
Non-cash provision for restructuring	—	1,459
Gain on divestiture of consumer business	—	(37,972)
Gain on sales of assets	(125)	(252)
Stock-based compensation expense	5,716	9,025
Non-cash interest expense	220	220
Foreign currency transaction gains	(856)	(1,619)
Provision for deferred taxes	6	823
Changes in operating assets and liabilities:		
Accounts receivable	12,255	29,076
Inventories	7,473	13,202
Prepaid expenses and other current assets	965	116
Accounts payable	(4,823)	(6,247)
Accrued expenses, compensation and benefits and other liabilities	(1,348)	(1,265)
Income taxes payable	(475)	711
Deferred revenues	(66,170)	(67,696)
Net cash (used in) provided by operating activities	(10,028)	32,686
Cash flows from investing activities:		
Purchases of property and equipment	(8,998)	(6,951)
Proceeds from sale of assets	125	—
Proceeds from divestiture of consumer business	—	11,440
Increase in other long-term assets	(25)	(73)
Net cash (used in) provided by investing activities	(8,898)	4,416
Cash flows from financing activities:		
Proceeds from the issuance of common stock under employee stock plans	177	794
Common stock repurchases for tax withholdings for net settlement of equity awards	(263)	(634)
Proceeds from revolving credit facilities	—	14,000
Payments on revolving credit facilities	—	(14,000)
Net cash (used in) provided by financing activities	(86)	160
Effect of exchange rate changes on cash and cash equivalents	(1,145)	1,242
Net (decrease) increase in cash and cash equivalents	(20,157)	38,504
Cash and cash equivalents at beginning of period	70,390	32,855
Cash and cash equivalents at end of period	$50,233	$71,359

Supplemental information:

Cash paid for income taxes, net of refunds	$1,643	$3,411
Cash paid for interest	930	904

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

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, 2012 was derived from the Company’s audited consolidated financial statements but does not include all disclosures required by U.S. GAAP for annual financial statements. The Company’s audited consolidated financial statements as of and for the year ended December 31, 2012 are included in its Annual Report on Form 10-K for the year ended December 31, 2013, which includes 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 Form 10-K.

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 December 31, 2013, the Company’s principal sources of liquidity included cash and cash equivalents totaling $48.2 million and available borrowings under the Company’s credit facilities. Cash used in operating activities aggregated $9.1 million for the year ended December 31, 2013. This cash use reflected significant spending on restatement-related activities, restructuring related activities and executive management changes of $13.2 million, $13.2 million and $2.4 million, respectively. The spending associated with the restatement and restructuring activities is expected to materially abate by the end of 2014. The spending associated with the executive management changes was substantially completed in 2013.

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 credit 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

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”) that established two revolving credit facilities with combined maximum availability of up to $60 million for borrowings and letter of credit guarantees (the “Credit Agreement”). On August 29, 2014, the Company entered into an amendment (the “Amendment”) to its Credit Agreement with Wells Fargo. The Amendment (i) extended the maturity of the Credit Agreement from October 1, 2014 to October 1, 2015, (ii) changed the maximum amounts available under each of the revolving credit facilities, (iii) and added certain covenants, as described below.

Under the Amendment, the maximum amount available for Avid Technology, Inc., (“Avid Technology”) was increased to $45 million (from $40 million) and the maximum amount available for its subsidiary Avid Technology International B.V. (“Avid Europe”) was decreased to $15 million (from $20 million). The maximum amount available under the combined credit facilities continues to be $60 million, subject to certain limitations on borrowing and other terms and conditions as provided in the Credit Agreement.

The Amendment further limits the Company’s ability to access borrowings under the credit facilities if (i) EBITDA (as defined in the Amendment) of $33.8 million is not achieved for the year ending December 31, 2014, or (ii) capital expenditures (as defined in the Amendment) exceed $16.0 million for the year ending December 31, 2014.

The Company evaluated subsequent events through the date of issuance of these financial statements and except for the subsequent events disclosed above and in Note 10, 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 currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

2. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

Background

In early 2013, during the course of the Company's review of its financial results for the fourth quarter and full year of 2012, management identified a historical practice of the Company making available, at no charge to its customers, minor feature and/or compatibility enhancements, as well as bug fixes on a when-and-if-available basis (collectively, "Software Updates") that management has concluded meets the definition of post-contract customer support ("PCS") under U.S. GAAP. The business practice of providing Software Updates at no charge for many of the Company's products creates an implicit obligation and an additional undelivered element for each impacted arrangement (referred to as "Implied Maintenance Release PCS"). The Company's identification of this additional undelivered element in substantially all of its customer arrangements has a significant impact on the historical revenue recognition policies because this element had not been previously accounted for in any period.

As a result of the foregoing and as explained more fully below, the Company has restated its financial statements for the three and nine months ended September 30, 2012.

Restatement Adjustments

Revenue Recognition

The failure to identify and account for the existence of Implied Maintenance Release PCS resulted in errors in the timing of revenue recognition reported in the Company's previously issued consolidated financial statements. Historically, the Company generally recognized revenue upon product shipment or over the period services and post-contract customer support were provided (assuming other revenue recognition conditions were met). As described more fully in the Company's policy for "Revenue Recognition" in Note A to the Consolidated Financial

Statements in Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013, the existence of Implied Maintenance Release PCS in a customer arrangement requires recognition of some or all arrangement consideration, depending on GAAP applicable to the deliverables, over the period of time that the Implied Maintenance Release PCS is delivered, which is after product delivery or services are rendered and is generally after several years. The errors in the timing of revenue recognition have been corrected in the restated condensed consolidated financial statements. The significant change in the pattern of revenue recognition also had indirect impacts on revenue related accounts, such as sales return allowances and, as discussed further below, non-revenue accounts such as stock-based compensation and income taxes, which have also been restated in the restated condensed consolidated financial statements.

Stock-Based Compensation

As a result of the change in the timing of revenue recognition described above, the timing and amount of stock-based compensation expense attributable to performance-based awards, where expected vesting was based on profitability, also changed. Due to the restated historical financial statements, many of the performance-based awards have vested earlier than originally estimated.

Restructuring

The Company identified an error in the facility restructuring charge of $4.3 million recorded in the three and nine months ended September 30, 2012, where the Company failed to reflect a required assumption that an expected subtenant would absorb common area maintenance charges. The Company also identified an overstatement of severance costs accruals primarily due to an incorrect estimate originally recorded in the three months ended June 30, 2012. The overstatement totaled $1.1 million in the nine months ended September 30, 2012.

Other Adjustments

In addition to correcting the restatement adjustments described above, the Company also recorded other adjustments for other errors identified during the restatement process, including reclassifications between cost of sales and operating expenses, as well as errors in inventories, stock-based compensations and accrued liabilities. The provision for income taxes has been adjusted to reflect the changes in quarterly income before taxes.

Discontinued Operations

On July 2, 2012, the Company exited its consumer business through the sale of the assets of that business in two separate transactions. As described further in Note 7, the disposition of the consumer business qualified for presentation as discontinued operations; therefore, these financial statements have been retrospectively adjusted for all periods presented to report the consumer business as a discontinued operation. In the previously issued financial statements, the sale of the consumer business was incorrectly included in continuing operations.

Adjustments to Condensed Consolidated Statement of Operations

The following tables present the impact of the financial statement adjustments on the Company's previously reported condensed consolidated statements of operations for the three and nine months ended September 30, 2012 (in thousands except per share data):

	Three Months Ended September 30, 2012				
	As Previously Reported	Revenue Restatement Adjustments	Other Restatement Adjustments	Discontinued Operations	As Restated
Net revenues:					
Products	$90,878	18,806	$ —	—	$109,684
Services	36,297	4,626	—	—	40,923
Total net revenues	127,175	23,432	—	—	150,607
Cost of revenues:					
Products	44,312	—	(5,955)	—	38,357
Services	15,107	—	1,555	—	16,662
Amortization of intangible assets	634	—	—	—	634
Total cost of revenues	60,053	—	(4,400)	—	55,653
Gross profit	67,122	23,432	4,400	—	94,954
Operating expenses:					
Research and development	23,099	—	108	—	23,207
Marketing and selling	36,629	—	(2,688)	—	33,941
General and administrative	10,542	—	363	—	10,905
Amortization of intangible assets	782	—	—	—	782
Restructuring costs, net	12,674	—	(2,843)	—	9,831
Gain on sale of assets	(206)	—	206	—	—
Total operating expenses	83,520	—	(4,854)	—	78,666
Operating (loss) income	(16,398)	23,432	9,254	—	16,288
Interest income	49	—	1	—	50
Interest expense	(404)	—	(1)	—	(405)
Other income	37	—	—	—	37
(Loss) income from continuing operations before income taxes	(16,716)	23,432	9,254	—	15,970
Provision for income taxes, net	672	—	522	—	1,194
(Loss) income from continuing operations, net of tax	(17,388)	23,432	8,732	—	14,776
Discontinued operations:					
Gain on divestiture of consumer business	—	—	—	37,972	37,972
Income from discontinued operations	—	—	—	37,972	37,972
Net (loss) income	$(17,388)	$ 23,432	$ 8,732	$ 37,972	$52,748
(Loss) income per common share – basic:					
(Loss) income per share from continuing operations, net of tax – basic	$(0.45)				$0.38
Income per share from discontinued operations – basic	—				0.98
Net (loss) income per common share – basic	$(0.45)				$1.36
(Loss) income per common share - diluted:					
(Loss) income per share from continuing operations, net of tax – diluted	$(0.45)				$0.38
Income per share from discontinued operations – diluted	—				0.98

Net (loss) income per common share – diluted	$(0.45)	$1.36
Weighted-average common shares outstanding – basic	38,859	38,859
Weighted-average common shares outstanding – diluted	38,859	38,890

	Nine Months Ended September 30, 2012				
	As Previously Reported	Revenue Restatement Adjustments	Other Restatement Adjustments	Discontinued Operations	As Restated
Net revenues:					
Products	$333,841	$ 74,641	$ —	$ (46,101)	$362,381
Services	102,905	9,948	—	—	112,853
Total net revenues	436,746	84,589	—	(46,101)	475,234
Cost of revenues:					
Products	174,794	—	(6,707)	(33,265)	134,822
Services	42,149	—	5,253	—	47,402
Amortization of intangible assets	1,928	—	—	—	1,928
Total cost of revenues	218,871	—	(1,454)	(33,265)	184,152
Gross profit	217,875	84,589	1,454	(12,836)	291,082
Operating expenses:					
Research and development	77,474	—	8	(1,554)	75,928
Marketing and selling	126,017	—	(5,609)	(2,312)	118,096
General and administrative	39,086	—	656	(1,138)	38,604
Amortization of intangible assets	3,499	—	—	—	3,499
Restructuring costs, net	28,683	—	(3,971)	—	24,712
Loss on divestiture	9,745	—	—	(9,745)	—
Total operating expenses	284,504	—	(8,916)	(14,749)	260,839
Operating (loss) income	(66,629)	84,589	10,370	1,913	30,243
Interest income	164	—	31	—	195
Interest expense	(1,124)	—	(31)	—	(1,155)
Other income	69	—	—	—	69
(Loss) income from continuing operations before income taxes	(67,520)	84,589	10,370	1,913	29,352
Provision for income taxes, net	2,097	—	833	—	2,930
(Loss) income from continuing operations, net of tax	(69,617)	84,589	9,537	1,913	26,422
Discontinued operations:					
Gain on divestiture of consumer business	—	—	—	37,972	37,972
Income from divested operations	—	—	—	7,832	7,832
Income from discontinued operations	—	—	—	45,804	45,804
Net (loss) income	$(69,617)	$ 84,589	$ 9,537	$ 47,717	$72,226
(Loss) income per common share – basic and diluted:					
(Loss) income per share from continuing operations, net of tax – basic and diluted	$(1.80)				$0.68
Income per share from discontinued operations – basic and diluted	—				1.18
Net (loss) income per common share – basic and diluted	$(1.80)				$1.86
Weighted-average common shares outstanding – basic	38,767				38,767
Weighted-average common shares outstanding – diluted	38,767				38,819

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Adjustments to Condensed Consolidated Statement of Cash Flows

The following table presents the impact of the financial statement adjustments on the Company's previously reported condensed consolidated statement of cash flows for the nine months ended September 30, 2012 (in thousands):

	Nine Months Ended September 30, 2012				
	As Previously Reported	Revenue Restatement Adjustments	Other Restatement Adjustments	Discontinued Operations	As Restated
Cash flows from operating activities:					
Net (loss) income	$(69,617)	$84,589	$9,537	$47,717	$72,226
Adjustments to reconcile net (loss) income to net cash provided by operating activities:					
Depreciation and amortization	20,905	—	39	—	20,944
Recovery of doubtful accounts	(101)	—	36	—	(65)
Non-cash provision for restructuring	4,950	—	(3,491)	—	1,459
Non-cash provision for allowances related to divestitures	1,041	—	(1,041)	—	—
Gain on sale of assets	(257)	—	5	—	(252)
Gain on divestiture of consumer business	—	—	—	(37,972)	(37,972)
Loss on divestiture of consumer business	9,745	—	—	(9,745)	—
Stock-based compensation expense	7,074	—	1,951	—	9,025
Non-cash interest expense	220	—	—	—	220
Foreign currency transaction losses (gains)	1,211	—	(2,830)	—	(1,619)
Provision for deferred taxes	823	—	—	—	823
Changes in operating assets and liabilities:					
Accounts receivable	28,201	(609)	1,484	—	29,076
Inventories	16,995	—	(3,793)	—	13,202
Prepaid expenses and other current assets	(2,705)	—	2,821	—	116
Accounts payable	(6,247)	—	—	—	(6,247)
Accrued expenses, compensation and benefits and other liabilities	2,351	—	(3,616)	—	(1,265)
Income taxes payable	84	—	627	—	711
Deferred revenues	16,282	(83,980)	2	—	(67,696)
Net cash provided by operating activities	30,955	—	1,731	—	32,686
Cash flows from investing activities:					
Purchases of property and equipment	(6,659)	—	(292)	—	(6,951)
Proceeds from divestiture of consumer business	13,309	—	(1,869)	—	11,440
Change in other long-term assets	191	—	(264)	—	(73)
Net cash provided by investing activities	6,841	—	(2,425)	—	4,416
Cash flows from financing activities:					
Proceeds from issuance of common stock under employee stock plans	160	—	634	—	794
Common stock repurchases for tax withholdings for net settlement of equity awards	—		(634)	—	(634)
Proceeds from revolving credit facilities	14,000	—	—	—	14,000
Payments on revolving credit facilities	(14,000)	—	—	—	(14,000)
Net cash provided by financing activities	160	—	—	—	160

Effect of exchange rate changes on cash and cash equivalents	548	—	694	—	1,242
Net increase in cash and cash equivalents	38,504	—	—	—	38,504
Cash and cash equivalents at beginning of period	32,855	—	—	—	32,855
Cash and cash equivalents at end of period	$71,359	$—	$—	$—	$71,359

3. 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Options	4,999	6,125	5,328	6,193
Non-vested restricted stock units	322	609	379	643
Anti-dilutive potential common shares	5,321	6,734	5,707	6,836

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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. 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, 2013 and December 31, 2012, the Company had foreign currency forward contracts outstanding with aggregate notional values of $28.6 million and $23.6 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, 2013 and December 31, 2012, the Company had such foreign currency contracts with aggregate notional values of $3.7 million and $5.3 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, 2013 and December 31, 2012 (in thousands):

Derivatives Not Designated as Hedging Instruments Under Accounting Standards Codification (“ASC”) Topic 815	Balance Sheet Classification	Fair Value at September 30, 2013	Fair Value at December 31, 2012
Financial assets:			
Foreign currency contracts	Other current assets	$715	$157
Financial liabilities:			
Foreign currency contracts	Accrued expenses and other current liabilities	$39	$337

The following table sets forth the net foreign exchange losses recorded as marketing and selling expenses in the Company’s condensed consolidated statements of operations during the three and nine months ended September 30, 2013 and 2012 that resulted from the Company’s foreign currency contracts and the revaluation of the related hedged items (in thousands):

Derivatives Not Designated as Hedging Instruments under ASC Topic 815	Net (Loss) Gain Recorded in Marketing and Selling Expenses			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012 (Restated)	2013	2012 (Restated)
Foreign currency contracts and revaluation of hedged items, net	$(320)	$(215)	$74	$(661)

See Note 5 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, marketable securities and insurance contracts held in deferred compensation plans. At September 30, 2013 and December 31, 2012, 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 fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis at September 30, 2013 and December 31, 2012 (in thousands):

		Fair Value Measurements at Reporting Date Using		
	September 30, 2013	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	$ 1,805	$1,183	$622	$—
Foreign currency contracts	715	—	715	—
Financial Liabilities:				
Foreign currency contracts	39	—	39	—

		Fair Value Measurements at Reporting Date Using		
	December 31, 2012	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	$1,680	$1,097	$583	$—
Foreign currency contracts	157	—	157	—
Financial Liabilities:				
Foreign currency contracts	337	—	337	—

The fair values of Level 1 deferred compensation assets are determined using a market approach based on quoted market prices of the underlying securities. The fair values of the Level 2 deferred compensation assets are determined using an income approach based on observable inputs including the prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

The fair values of foreign currency contracts are classified as Level 2 in the fair value hierarchy and are measured at fair value on a recurring basis using an income approach based on observable inputs. The primary inputs used to fair value foreign currency contracts are published foreign currency exchange rates as of the date of valuation. See Note 4 for information on the Company's foreign currency contracts.

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.

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6. INVENTORIES

Inventories consisted of the following at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Raw materials	$ 9,975	$ 11,095
Work in process	249	293
Finished goods	51,446	57,755
Total	$ 61,670	$ 69,143

At September 30, 2013 and December 31, 2012, finished goods inventory included $3.0 million and $3.7 million, respectively, associated with products shipped to customers and deferred labor costs for arrangements where revenue recognition had not yet commenced.

7. DISCONTINUED OPERATIONS

On July 2, 2012, the Company sold a group of consumer audio and video products and certain related intellectual property (the “Consumer Business”) with a negative carrying value of $25.0 million for total consideration of $14.8 million, of which $13.3 million was received during the three months ended September 30, 2012, recording a gain of $38.0 million net of $1.9 million of costs incurred to sell the assets. The audio assets were sold to Numark Industries, L.P. (“Numark”) for $11.8 million. Proceeds of $10.9 million were received from Numark during 2012, with the remaining proceeds held in escrow until a final release date in March 2014. The video assets were sold to Corel Corporation (“Corel”) for $3.0 million. Proceeds of $2.4 million were received from Corel in the third quarter of 2012, with the remaining proceeds held in escrow until a final release date in January 2014. There was no income tax provision related to the discontinued operations in any period presented.

The divestiture of these consumer product lines was intended to:

- allow the Company to focus on the Broadcast and Media market and the Video and Audio Post and Professional market;
- reduce complexity from the Company's operations to improve operational efficiencies; and
- allow the Company to change its cost structure, by moving away from lower growth, lower margin sectors to drive improved financial performance.

The following table presents the gain from the divestiture (in thousands):

Proceeds from sale of consumer business	$14,841
Less: assets disposed of	
Intangible assets	(3,474)
Inventory, net	(16,500)
Fixed assets	(507)
Capitalized software	(372)
Other assets	(23)
Plus: liabilities disposed of	
Deferred revenues (Restated)	45,401
Warranty accrual	507
Net assets sold	25,032
Costs to sell	(1,901)
Gain on divestiture of consumer business	$37,972

The following table presents the results of operations from discontinued operations for the three and nine months ended September 30, 2012 (Restated) (in thousands):

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
Net revenues	$—	$46,101
Cost of revenues	—	33,265
Gross profit	—	12,836
Operating expenses	—	5,004
Income from divested operations	—	7,832
Gain on divestiture of consumer business	37,972	37,972
Income from discontinued operations	$37,972	$45,804

8. 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, 2013 and December 31, 2012 (in thousands):

	September 30, 2013			December 31, 2012		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Completed technologies and patents	$52,724	$ (52,510)	$214	$52,720	$ (51,171)	$1,549
Customer relationships	49,592	(44,856)	4,736	49,543	(42,828)	6,715
Trade names	5,974	(5,974)	—	5,970	(5,970)	—
Capitalized software costs	5,941	(5,217)	724	5,938	(4,985)	953
Total	$114,231	$ (108,557)	$5,674	$114,171	$ (104,954)	$9,217

Amortization expense related to intangible assets in the aggregate was $0.9 million and $1.5 million, respectively, for the three months ended September 30, 2013 and 2012 (Restated), and $3.5 million and $6.1 million, respectively, for the nine months ended September 30, 2013 and 2012 (Restated). The Company expects amortization of intangible assets to be $0.8 million for the remainder of 2013, $1.9 million in 2014, $1.8 million in 2015 and $1.2 million in

2016.

9. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consisted of the following at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Long-term deferred rent	$ 8,404	$ 8,923
Long-term accrued restructuring	2,461	5,119
Long-term deferred compensation	4,120	3,936
Total	$ 14,985	$ 17,978

10. 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. At this time, the Company believes that a loss related to the demand letter is neither probable nor remote, and based on the information currently available regarding the claims in the demand letter, the Company is unable to determine an estimate, or range of estimates, of potential losses.

In April and May 2013, the Company received a document preservation request and inquiry from the SEC's 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 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, 2013, 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, 2013 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.

During 2010, the Company's Canadian subsidiary, Avid Technology Canada Corporation, was assessed and paid to the Ministry of Revenue Quebec ("MRQ") approximately CAN $1.7 million for social tax assessments on Canadian employee stock-based compensation related to the Company's stock plans. The payment amounts were recorded in "other current assets" in the Company's consolidated balance sheets at September 30, 2013 and December 31, 2012. During 2013, the Quebec Court of Appeals rendered a judgment against the MRQ in a similar case, and a subsequent appeal by the MRQ was dismissed by the Supreme Court of Canada. As a result, the MRQ filed a Declaration of Settlement related to the Avid case in November 2013, and this matter is considered closed. In December 2013, the MRQ refunded to the Company CAN $1.9 million for tax assessments for 2001 through 2006 and related interest. The tax assessments for 2007 through 2011 are not material and are expected to be refunded with interest during 2014.

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, 2013, 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 also has a standby letter of credit at a bank that is used as a security deposit in connection with the Company's Daly City, California office space lease. In the event of default on this lease, the landlord would, at September 30, 2013, be eligible to draw against this letter of credit to a maximum of $0.8 million. The letter of credit will remain in effect at this amount throughout the remaining lease period, which extends to September 2014. The Company is not renewing this lease at the end of the term and expects the letter of credit to be released at that time.

The Company has letters of credit totaling approximately $2.6 million that support its ongoing operations. These letters of credit have various terms and expire during 2013 and 2014. 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, 2013 and 2012 (in thousands):

	Nine Months Ended September 30,	
	2013	2012 (Restated)
Accrual balance at beginning of year	$4,476	$4,743
Accruals for product warranties	1,963	4,920
Costs of warranty claims	(3,009)	(4,141)
Allocation to divestitures	—	(507)
Accrual balance at end of period	$3,430	$5,015

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, 2013.

11. 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.

2012 Restructuring Plan

In June 2012, the Company committed to a series of strategic actions (the "2012 Plan") to focus on the Broadcast and Media market and Video and Audio Post and Professional market and to drive improved operating performance. These actions included the divestiture of certain of the Company's consumer-focused product lines, a rationalization of the business operations and a reduction in force. Actions under the plan included the elimination of approximately 280 positions in June 2012 and the abandonment of one of the Company's facilities in Burlington, Massachusetts and partial abandonment of facilities in Mountain View and Daly City, California in September 2012. During 2012, the Company recorded restructuring charges of $13.9 million related to severance costs and $8.6 million for the closure or partial closure of facilities, which included non-cash amounts of $1.4 million for fixed asset write-offs and $1.0 million for deferred rent liability write-offs. The Company substantially completed all actions under the 2012 Plan prior to December 31, 2012.

During the first nine months of 2013, the Company recorded revisions totaling $1.0 million, primarily resulting from sublease assumption changes and other lease-related fees.

Prior Year Restructuring Plans

During the first nine months of 2012, the Company recorded revisions totaling $3 million, primarily resulting from sublease
assumption changes related to the abandonment of facilities under the 2008 and 2010 Restructuring Plans.

During the first nine months of 2013, the Company recorded revisions totaling $0.4 million, primarily resulting from sublease
assumption changes related to the abandonment of facilities under the 2008 and 2010 Restructuring Plans.

Restructuring Summary

The following table sets forth the activity in the restructuring accruals for the nine months ended September 30, 2013 (in thousands):

	Non-Acquisition-Related Restructuring Liabilities		Acquisition-Related Restructuring Liabilities		
	Employee-Related	Facilities/Other-Related	Employee-Related	Facilities-Related	Total
Accrual balance at December 31, 2012	$4,299	$ 10,839	$—	$595	$15,733
New restructuring charges – operating expenses	1,511	—	—	—	1,511
Revisions of estimated liabilities	57	1,483	—	(172)	1,368
Accretion	—	411	—	26	437
Cash payments	(4,933)	(5,397)	—	(341)	(10,671)
Foreign exchange impact on ending balance	(33)	(58)	—	—	(91)
Accrual balance at September 30, 2013	$901	$ 7,278	$—	$108	$8,287

The employee-related accruals at September 30, 2013 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 consolidated balance sheet at September 30, 2013.

The facilities-related accruals at September 30, 2013 represent contractual lease payments, net of subleases, 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, $4.9 million is included in the caption "accrued expenses and other current liabilities" and $2.5 million is included in the caption "other long-term liabilities" in the Company's consolidated balance sheet at September 30, 2013.

12. 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 from continuing operations by type for the three and nine months ended September 30, 2013 and 2012 (Restated) (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012 (Restated)	2013	2012 (Restated)
Video products and solutions net revenues	$57,683	$62,012	$174,569	$203,574
Audio products and solutions net revenues	35,286	47,672	116,976	158,807
Products and solutions net revenues	92,969	109,684	291,545	362,381
Services net revenues	45,924	40,923	124,764	112,853
Total net revenues	$138,893	$150,607	$416,309	$475,234

The following table sets forth the Company’s revenues from continuing operations by geographic region for the three and nine months ended September 30, 2013 and 2012 (Restated) (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012 (Restated)	2013	2012 (Restated)
Revenues:				
United States	$53,904	$58,373	$160,829	$184,778
Other Americas	11,891	17,617	36,727	42,716
Europe, Middle East and Africa	51,943	53,022	155,444	177,404
Asia-Pacific	21,155	21,595	63,309	70,336
Total net revenues	$138,893	$150,607	$416,309	$475,234

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

RESTATEMENT OF FINANCIAL STATEMENTS

Background

In early 2013, during the course of the review of our financial results for the fourth quarter and full year of 2012, we identified a historical practice of Avid making available, at no charge to our customers, minor feature and/or compatibility enhancements as well as bug fixes on a when-and-if-available basis, collectively the Software Updates, that we have concluded meet the definition of post-contract customer support, or PCS, under U.S. generally accepted accounting principles, or GAAP. The business practice of providing Software Updates at no charge for many of our products creates an implicit obligation and an additional undelivered element for each impacted arrangement, which we refer to as Implied Maintenance Release PCS. Our identification of this additional undelivered element in substantially all of our customer arrangements has a significant impact on our historical revenue recognition policies because this element had not been previously accounted for in any period.

As a result of the foregoing and as explained in more detail below, we have restated our financial statements for the three and nine months ended September 30, 2012 included in this report.

Restatement Adjustments

Revenue Recognition

The failure to identify and account for the existence of Implied Maintenance Release PCS resulted in errors in the timing of revenue recognition reported in our previously issued consolidated financial statements. Historically, we generally recognized revenue upon product shipment or over the period services and post-contract customer support were provided (assuming other revenue recognition conditions were met). As described more fully in our policy for "Revenue Recognition and Allowance for Sales Returns and Exchanges" in the section titled "Critical Accounting Policies and Estimates" in this Item 2, the existence of Implied Maintenance Release PCS in a customer arrangement requires recognition of some or all arrangement consideration, depending on GAAP applicable to the deliverables, over the period of time that the Implied Maintenance Release PCS is delivered, which is after product delivery or services are rendered and is generally several years. The errors in the timing of revenue recognition have been corrected in the restated condensed consolidated financial statements. The significant change in the pattern of revenue recognition also had indirect impacts on revenue-related accounts, such as sales return allowances and, as discussed further below, non-revenue accounts such as stock-based compensation and income taxes, which have also been restated in the restated condensed consolidated financial statements.

Stock-Based Compensation

As a result of the change in the timing of revenue recognition described above, the timing and amount of stock-based compensation expense attributable to performance-based awards, where expected vesting was based on profitability, also changed. Due to the restated historical financial statements, many of the performance-based awards have vested earlier than originally estimated.

Restructuring

We identified an error in the facility restructuring charge of $4.3 million recorded in the three and nine months ended September 30, 2012, where we failed to reflect a required assumption that an expected subtenant would absorb common area maintenance charges. We also identified an overstatement of severance costs accruals primarily due to an incorrect estimate originally recorded in the three months ended June 30, 2012. The overstatement totaled $1.1 million in the nine months ended September 30, 2012.

Other Adjustments

In addition to correcting the restatement adjustments described above, we also recorded other adjustments for other errors identified during the restatement process, including reclassifications between cost of sales and operating expenses, as well as errors in inventories, stock-based compensations and accrued liabilities. The provision for income taxes has been adjusted to reflect the changes in quarterly income before taxes.

Discontinued Operations

On July 2, 2012, we exited our consumer business through the sale of the assets of that business in two separate transactions. As described further in Note 7 to our Condensed Consolidated Financial Statements in Part I - Item 1 of this Form 10-Q, the disposition of the consumer business qualified for presentation as discontinued operations; therefore, our financial statements have been retrospectively adjusted for all periods presented to report the consumer business as a discontinued operation. In the previously issued financial statements, the sale of the consumer business was incorrectly included in continuing 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 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. In April 2014, we unveiled the details of and first product deliverables guided by Avid Everywhere. To deliver on this vision, we have developed and continue to advance the Avid MediaCentral Platform, 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 MediaCentral Platform is intended to allow anyone with a creative idea to conceptualize, produce, monetize, and distribute their work for the enjoyment and pleasure of others.

Recent Events

Executive Management Changes

On February 11, 2013, we announced the appointment of Louis Hernandez, Jr. as our President and Chief Executive Officer. Mr. Hernandez has been a member of our Board of Directors since 2008. Most recently, Mr. Hernandez was Chairman of the Board and Chief Executive Officer of Open Solutions, Inc., a technology provider to financial institutions worldwide, which was acquired in January 2013 b