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

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

FORM 10-K

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 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)
Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:
Title of Each Class
Common Stock, $.01 Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 S

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $287,833,000 based on the last reported bid price of the Common Stock on the OTC Pink Tier on June 30, 2014. The number of shares outstanding of the registrant's Common Stock as of August 29, 2014 was 39,159,269.

Documents Incorporated By Reference
None

AVID TECHNOLOGY, INC.
FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

TABLE OF CONTENTS

		Page
	Cautionary Note on Forward-Looking Statements	iii
	Explanatory Note	v
PART I.		
ITEM 1.	Business	1
ITEM 1A.	Risk Factors	11
ITEM 1B.	Unresolved Staff Comments	25
ITEM 2.	Properties	25
ITEM 3.	Legal Proceedings	25
ITEM 4.	Mine Safety Disclosures	25
PART II.		
ITEM 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	26
ITEM 6.	Selected Financial Data	28
ITEM 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	30
ITEM 7A.	Quantitative and Qualitative Disclosures about Market Risk	57
ITEM 8.	Financial Statements and Supplementary Financial Information	59
	Report of Independent Registered Public Accounting Firm	60
ITEM 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	101
ITEM 9A.	Controls and Procedures	101
ITEM 9B.	Other Information	106
PART III.		
ITEM 10.	Directors, Executive Officers and Corporate Governance	107
ITEM 11.	Executive Compensation	115
ITEM 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	153
ITEM 13.	Certain Relationships and Related Transactions, and Director Independence	156
ITEM 14.	Principal Accountant Fees and Services	157
PART IV.		
ITEM 15.	Exhibits and Financial Statement Schedules	159
SIGNATURES		160
INDEX TO EXHIBITS		

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, or Form 10-K, 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-K 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 Item 1A of this Form 10-K. In addition, the forward-looking statements contained in this Form 10-K 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.

The information included under the heading "Stock Performance Graph" in Item 5 of this Form 10-K is "furnished" and not "filed" and shall not be deemed to be "soliciting material" or subject to Regulation 14A, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or otherwise subject to the liabilities of

that section, nor shall it be deemed incorporated by reference in any filing under the Exchange Act or the Securities Act of 1933, as amended, or the Securities Act.

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-K are the property of their respective owners.

EXPLANATORY NOTE

This Annual Report on Form 10-K for the year ended December 31, 2013 filed by Avid Technology, Inc. together with its consolidated subsidiaries (collectively, "Avid" or the "Company," or "we," "us" or "our" unless the context indicates otherwise) includes the restatement of certain of our previously filed consolidated financial statements and data as explained herein. It also amends previously filed disclosures, including those for management's discussion and analysis of financial condition and results of operations, as well as other disclosures, for certain periods presented in this Form 10-K. Accordingly, this filing includes more information than would routinely be included in an Annual Report on Form 10-K, in order to provide stockholders a composite presentation of information for prior periods during which we were not making periodic filings with the Securities and Exchange Commission, or SEC. In addition, because of the changes we have made in our business since the end of 2013, the information relating to our business and related matters includes certain information for periods after December 31, 2013.

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 and in Note B to our Consolidated Financial Statements in Item 8 of this Form 10-K, we have restated our consolidated financial statements for the year ended December 31, 2011. The restatement also affects periods prior to the year ended December 31, 2011, and the cumulative effects of the restatement have been reflected as prior period adjustments to the 2011 opening balance of accumulated deficit in our audited consolidated financial statements and in the relevant periods presented in Item 6, "Selected Financial Data."

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" in Note A to our Consolidated Financial Statements in Item 8 of this Form 10-K, 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 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 goodwill, stock-based compensation and income taxes, which have also been restated in the restated consolidated financial statements.

Goodwill

As a result of the change in the timing of revenue recognition described above and the resulting increase in deferred revenues, the carrying values of the reporting units used in our original goodwill impairment tests were incorrect for each historical period impacted by the restatement of revenue, including those periods in which impairment charges totaling $172.4 million had been recorded. The decrease in carrying value of the reporting units arising from the deferred revenue resulted in negative carrying value and changes to the original step one conclusions that further considerations of goodwill impairment were required under step two, and, as such, no impairment should have been recognized in the periods prior to January 1, 2011. As a result, the

carrying value of goodwill was restated to $419.4 million at December 31, 2010. On January 1, 2011, we adopted Accounting Standards Update, or ASU, No. 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts, or ASU No. 2010-28. ASU No. 2010-28 requires companies with negative carrying value of a reporting unit to perform step two of the impairment test when it is more likely than not that a goodwill impairment exists. Upon adoption of ASU No. 2010-28, we recorded a full impairment of goodwill through a cumulative-effect adjustment to accumulated deficit. The decline in the fair value of goodwill that caused the impairment was the result of declines in actual and expected cash flows that occurred over a several-year period prior to December 31, 2010.

The following table presents the adjustments to goodwill for the year ended December 31, 2011 (Restated) (in thousands):

Goodwill balance at December 31, 2010, as previously reported	$246,997
Effect of restatement	172,371
Goodwill balance at December 31, 2010, as restated	419,368
Cumulative-effect adjustment due to the adoption of ASU No. 2010-28	(419,368)
Goodwill balance at December 31, 2011, as restated	$—

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 consolidated financial statements, many of the performance-based awards have vested earlier than originally estimated.

Restructuring

We also identified errors in a restructuring charge recorded in the year ended December 31, 2009. We originally assumed that a vacated facility could be sublet, reducing the restructuring expense by $2.2 million at that time. Subsequently, management determined that contractual provisions severely limited us from executing a sublease, which resulted in no possible sublease income at the time of lease abandonment. The cumulative effect of this error and other restructuring-related adjustments totaling $1.5 million at December 31, 2010 was reflected as an adjustment to the 2011 opening balance of accumulated deficit in our Consolidated Financial Statements in Item 8 of this Form 10-K.

Income Taxes

We identified and corrected certain errors related to the accounting for an intercompany loan made between two of our international subsidiaries that occurred during the year ended December 31, 2007. We determined that we should have accrued withholding taxes of $3.8 million, and as a result we had understated the provision for income taxes in 2007 and income taxes payable reported on our balance sheets for each period subsequent to the transaction. Additionally, as the tax was not withheld and paid to the taxing authority, we are subject to interest and penalties on the unpaid balance. The cumulative effect of this error and other adjustments totaling $6.2 million at December 31, 2010 was reflected as an adjustment to the 2011 opening balance of accumulated deficit in our Consolidated Financial Statements in Item 8 of this Form 10-K. We also adjusted income taxes as necessary to reflect the impact of the changes in the timing of revenue recognition described above. We also identified several errors in the compilation of our deferred tax assets and liabilities that are discussed in the notes to the financial statements. Due to the valuation allowance we had recorded against gross deferred tax assets, the adjustments had no net effect on our financial results; however, the corrected balances are reflected in the notes to our consolidated financial statements.

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 adjustments of $5.1 million to inventory and adjustments to accrued liabilities, as well as reclassifications of operating expenses to cost of revenues totaling $9.5 million.

Cumulative Effect of Prior Period Adjustments

The following table presents the cumulative effect of the prior period adjustments to stockholders' deficit at December 31, 2010 (Restated) (in thousands):

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)
Balances at December 31, 2010, as previously reported	$ 423	$ 1,005,198	$ (495,254)	$ (91,025)	$ 7,268	$ 426,610
Revenue recognition adjustments	—	—	(897,835)	—	957	(896,878)
Goodwill adjustments	—	—	172,371	—	—	172,371
Restructuring adjustments	—	—	(1,452)	—	—	(1,452)
Income tax adjustments	—	—	(6,280)	—	683	(5,597)
Stock-based compensation adjustments	—	12,204	(12,204)	—	—	—
Other adjustments	—	—	(5,693)	—	303	(5,390)
Balances at December 31, 2010, as restated	$ 423	$ 1,017,402	$ (1,246,347)	$ (91,025)	$ 9,211	$ (310,336)

Discontinued Operations

On July 2, 2012, we exited our consumer business through a sale of the assets of that business in two separate transactions. As described further in Note I to our Consolidated Financial Statements in Item 8 of this Form 10-K, the disposition of the consumer business qualified for presentation as discontinued operations. The accompanying financial statements have been retrospectively adjusted for all periods presented to report the consumer business as a discontinued operation.

Restated Information

We have corrected the above described errors and amended or restated the following financial information in this Form 10-K as of and for the periods indicated, or collectively the Restated Periods, noted in the table below.

Type of Financial Information	Date or Period
Consolidated statements of operations, comprehensive income, stockholders' deficit, and cash flows	Year ended December 31, 2011
Selected financial data	Years ended and as of December 31, 2011, 2010 and 2009
Unaudited quarterly financial information	Quarters ended September 30, 2012, June 30, 2012 and March 31, 2012
Management's discussion and analysis of financial condition and results of operations	As of and for the year ended December 31, 2011

We believe that presenting all of the amended and restated information for the Restated Periods in this Form 10-K allows investors and others to review all pertinent data in a single presentation. In addition, our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2013, June 30, 2013 and March 31, 2013 include the restated 2012 comparable prior quarter and year-to-date periods. We have not filed and do not intend to file amendments to any of our previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by the restatements or corrections of our financial statements. Accordingly, investors and others should rely only on the financial information and other disclosures regarding the Restated Periods in this Form 10-K, in our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2013, June 30, 2013 and March 31, 2013, or in future filings with

the SEC (as applicable), and not on any previously issued or filed reports, earnings releases or similar communications relating to these periods.

PART I

ITEM 1. BUSINESS

OVERVIEW

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.

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. We have been honored over time for our technological innovation with 14 Emmy Awards, one Grammy Award, two Oscar statuettes and the first ever America Cinema Editors Technical Excellence Award. Our solutions were used in all 2013 Oscar nominated films for Best Picture, Best Editing, Best Sound Editing, Best Original Score and Best Soundtrack.

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 by Fiserv, Inc. Subsequently, on April 22, 2013, we announced that John W. Frederick had assumed the role of our Executive Vice President, Chief Financial Officer and Chief Administrative Officer. Mr. Frederick had previously joined us as Chief of Staff on February 11, 2013, working on strategic projects as requested by our President and Chief Executive Officer. Prior to that, Mr. Frederick was Corporate Executive Vice President and Chief Financial Officer of Open Solutions, Inc. Also in 2013, we appointed Jeff Rosica, formerly head of Sales and Marketing at Grass Valley, as Senior Vice President of Worldwide Field Operations. For other recent developments affecting our business, please see the Executive Overview in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K.

Restatement and Related Matters

As discussed above in the Explanatory Note and in Note B to our Consolidated Financial Statements in Item 8 of this Form 10-K, we have completed the accounting evaluation commenced in early 2013 and have restated our consolidated financial statements for the year ended December 31, 2011 and prior periods. As a result of this accounting evaluation and restatement and our subsequent failure to stay current in our SEC reporting obligations, our common stock was suspended from trading on NASDAQ on February 25, 2014 and subsequently delisted. We intend to seek relisting of our common stock on the NASDAQ Global Select Market in connection with becoming current

with our SEC reporting obligations. In connection with our announcement of the accounting evaluation, we also became subject to litigation as discussed in Item 3 of Part I of this Form 10-K. We have also determined that we have material weaknesses in our internal control over financial reporting, as discussed in Item 9A of this Form 10-K.

Our revenues and operating results for the years ended December 31, 2013 and 2012 and our restated revenues and operating results for the year ended December 2011 have been affected by the deferral of revenues from customer transactions occurring prior to 2011. The amortization of the deferred revenues will affect our operating results through 2016, when the amortization of deferred revenues from transactions that occurred prior to 2011 is expected to be largely complete.

CORPORATE STRATEGY

Technology has enabled almost every aspect of how we live to become increasingly digitized, and acceleration of digitization is having a massive impact on the media industry and altering the industry value chain. At its simplest, the creative side of the value chain is fusing with the monetization (business) side. Organizations are under pressure to connect and automate the entire creation-to-consumption workflow. However, current technology solutions remain siloed, and roadmaps are disconnected from industry needs. Content creators no longer have the ability to dictate when, where, and how consumers enjoy media. Today's consumers are empowered to create and consume content on-demand-anywhere, anytime. This consumerization has increased the cost and complexity of monetizing assets. The increase in costs has increased pressure to optimize monetization and has led to an increase in content customization, which in turn leads to demand for new platforms for distribution and consumption. Together, these factors have caused an intense competition for consumer share of wallet and viewership.

Organizations need innovative ways to solve increasing technical and monetization complexity in creation, protection, and distribution of media assets, and they need to rely on partners who have the strategic understanding and technological expertise to help navigate the challenges they are facing, and take advantage of the opportunity before them. We believe we are uniquely positioned as a proven and trusted leader to effectively help the media industry navigate through this period of unprecedented changes.

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. By fostering an open approach, the MediaCentral Platform is designed to provide a standardized foundation that connects media creators and distributors together, regardless of who makes the tools they use. We believe this fundamentally changes how media organizations and professionals operate, providing greater flexibility to choose solutions and customize and scale end-to-end workflows tailored to meet specific needs.

Building on the Avid Everywhere strategic vision, in 2014 we reorganized our existing hardware and software products and introduced new solutions in three suites, all built upon the MediaCentral Platform. With on-premises and cloud-enabled deployment options, as well as subscription, floating, and perpetual licensing, customers have more choice over how they use Avid solutions. These three suites encompass both audio and video products and solutions and are summarized below:

- Artist Suite encompasses all of our products and tools used to create content, including digital audio workstations (DAW), music notation software, control surfaces, live sound systems, video editing solutions, and graphics creation systems.
- Media Suite includes all of our tools and services used to manage, protect, distribute, and monetize media, including solutions for newsroom management, asset management, and multiplatform distribution. Over time, we plan to expand the Media Suite to include metadata tagging, protection and encryption, and analytics.
- Storage Suite refers to all of our products and tools used to capture, store, and deliver media, including online storage, nearline storage, and ingest/playout servers.

Within the MediaCentral Platform, we are also developing public and private marketplaces to provide ways to sell and share assets outside of an organization. We are also developing the MediaCentral Platform application suites and marketplaces to help solve the needs of broadcast, professional video, and professional audio customers by offering an ecosystem that encompasses the digital media value chain-from media production, collaboration, and management, to distribution, monetization, and data and metadata analysis.

Through Avid Everywhere, we intend to enable broadcast and media customers to:

- streamline disparate workflows using the MediaCentral Platform;
- access media everywhere with powerful asset management solutions;
- collaborate using cloud-enabled video production;
- distribute content to a variety of web, mobile, and social channels; and
- deploy and scale workgroups as needed using traditional perpetual, flexible subscription and floating licenses.

Through Avid Everywhere, we intend to enable post-production facilities and independent video editors to:

- expand their productions using the MediaCentral Platform;
- manage large amounts of media using advanced media management solutions;
- leverage talent everywhere by collaborating via the cloud;
- accelerate high-resolution editorial workflows; and
- deploy and scale workgroups as needed using flexible subscription and floating licenses.

Through Avid Everywhere, we intend to enable artists, producers, engineers, sound designers, and remixers to:

- collaborate via the cloud;
- monetize their content through an interactive, online audio marketplace that facilitates connections, creation, and commerce;
- manage, track, and document assets using an open, universal metadata schema; and
- store and archive work locally or in the cloud.

CUSTOMER MARKETS

We provide digital media content-creation products and solutions to customers in the following markets:

- Broadcast and Media. This market consists of broadcast, government, sports and other organizations that acquire, create, process, and/or distribute audio and video content to a large audience for communication, entertainment, analysis, and/or forensic purposes. Customers in this industry rely on workflows that span content acquisition, creation, editing, distribution, sales and redistribution and utilize all content distribution platforms, including web, mobile, internet protocol television, cable, satellite, on-air and various other proprietary platforms. For this market, we offer a range of open products and solutions including hardware- and software-based video- and audio-editing tools, collaborative workflow and asset management solutions, and graphics-creation and automation tools, as well as scalable media storage options. Our domain expertise also allows us to provide customers in this market with a range of professional and consulting services. We sell into this market through our direct sales force and resellers.

- Video and Audio Post and Professional. This market is made up of individual artists and entities that create audio and video media as a paid service, but do not currently distribute media to end consumers on a large scale. This industry spans a wide-ranging target audience that includes: independent video editors, facilities and filmmakers that produce video media as a business but are not broadcasters; professional sound designers, editors and mixers and facilities that specialize in the creation of audio for picture; songwriters, musicians, producers, film composers and engineers who compose and record music professionally; technicians, engineers, rental companies and facilities that present, record and broadcast audio and video for live performances; and students and teachers in career technical education programs in high schools, colleges and universities, as well as in post-secondary vocational schools, that prepare students for professional media production careers in the digital workplace. For this market, we offer a range of products and solutions based on the Avid MediaCentral Platform, including hardware- and software-based creative production tools, scalable media storage options and collaborative workflows. Our domain expertise also allows us to provide customers in this market with a broad range of professional services. We sell into this market through storefront and on-line retailers, as well as through our direct sales force and resellers.

PRODUCTS AND SERVICES

Overview

Our software and hardware products and solutions, as well as our services offerings, address the diverse needs, skills and sophistication levels found within our customer markets.

In April 2014, we unveiled the details of and first product deliverables guided by Avid Everywhere, our strategic vision for the media and entertainment industry. This vision seeks to connect creative professionals and media organizations with their audiences in more powerful, efficient, collaborative, and profitable ways. As part of this introduction, we launched the new Avid

3

MediaCentral Platform, a set of modular application suites, and new private and public marketplaces that together will represent an open, integrated, and flexible media production and distribution environment in the industry.

The introduction of Avid Everywhere and the Avid MediaCentral Platform was the culmination of a series of significant product innovations delivered during 2013, all of which are components of the Avid Everywhere vision. Our 2013 product innovations include:

- Avid Media Composer 7, a nonlinear-editing solution;
- Pro Tools 11, a digital audio workstation;
- Avid Interplay Production 3.0 for media production and asset management;
- Avid Interplay Pulse for multi-platform distribution (rebranded to Media | Distribute in 2014);
- ISIS 5500 and 7500 shared storage systems;
- Avid S6, a state-of-the-art modular control surface for sound recording, editing and mixing; and
- Avid S3L, a portable and compact live sound system.

During 2012, as a result of a strategic review of our business and the markets we serve, we announced a series of actions to focus on our broadcast and creative professional customers, and drive improved operating performance. These actions included (i) the divestiture of our consumer-focused product lines in July 2012, which had addressed the creative enthusiast market; (ii) a rationalization of our business operations; (iii) and a reduction in force. We remain firmly committed to the professional markets and the products and services that support our broadcast and professional audio and video customers. The strategic actions described above have enabled us to focus on our core business as a provider of video and audio content creation, distribution and monetization solutions for these professional markets.

We believe that the divestiture of our consumer-focused product lines generated several significant advantages. First, it allowed us to focus our resources on the professional markets where our domain expertise, track-record of innovation and brand offer the greatest opportunity for success. Second, by aligning the business to focus on the broadcast and media market and professionals and post market, where we anticipated the strongest market growth, we reduced operational complexity and improved efficiency. Finally, divesting the consumer-focused businesses allowed us to improve our cost structure by moving away from cost-sensitive consumer products and offerings in lower-growth, lower-margin markets.

The following table presents our net revenues from continuing operations, which includes the amortization of deferred revenues but excludes the revenues from our consumer business divested in 2012, for the periods indicated (in thousands):

	Year Ended December 31,		
	2013	2012	2011 (Restated)
Video products and solutions net revenues	$243,173	$276,909	$298,633
Audio products and solutions net revenues	152,358	201,921	362,087
Products and solutions net revenues	395,531	478,830	660,720
Services net revenues	167,881	156,873	106,165
Total net revenues	$563,412	$635,703	$766,885

The following table presents our revenues from continuing operations, which includes the amortization of deferred revenues but excludes the revenues from our consumer business divested in 2012, by type as a percentage of total net revenues from continuing operations for the periods indicated:

	Year Ended December 31,		
	2013	2012	2011 (Restated)

Video products and solutions net revenues	43 %	44 %	39 %
Audio products and solutions net revenues	27 %	32 %	47 %
Total products and solutions net revenues	70 %	75 %	86 %
Services net revenues	30 %	25 %	14 %
Total net revenues	100 %	100 %	100 %

4

Based on our evaluation of the discrete financial information that is regularly reviewed by the chief operating decision makers, we have determined that in 2013, 2012 and 2011 (Restated), we operated as a single reporting segment. See Note Q to our Consolidated Financial Statements in Item 8 of this Form 10-K for further segment information as well as additional information about the sources of our revenues

Video Products and Solutions

Professional Video Creative Tools

We offer a range of software and hardware video-editing tools for the professional. Our award-winning Media Composer product line is used to edit television programs, commercials and films, while our NewsCutter and iNews Instinct editors are designed for the fast-paced world of news production. Avid Symphony Nitris DX is used during the "online" or "finishing" stage of post-production, during which the final program is assembled in high resolution with finished graphics, visual effects, color grading and audio tracks. In April 2013, we released Media Composer version 7 and NewsCutter version 11, featuring accelerated and simplified file-based workflows including optimized HD delivery from high-resolution source material and automated media operations. These new versions are designed to extend the production capabilities of these solutions and demonstrate our continuing commitment to provide tools that allow for improved creativity and productivity of the professional editor. Introduced in 2012, our Interplay Sphere solution (rebranded in 2014 as Media Composer | Cloud) provides real-time access, enabling broadcast news professionals to acquire, access, edit and finish stories anytime, from anywhere. Leveraging a cloud-based architecture, this solution gives contributors the ability to craft stories where they are happening and speed them to air while maintaining connectivity with the newsroom operation. Avid Motion Graphics is our complete hardware/software graphics solution to create 2D/3D on-air graphics.

Revenues from our professional video creative tools accounted for approximately 11%, 13% and 16% of our net revenues from continuing operations for 2013, 2012 and 2011 (Restated), respectively.

Video Storage and Server Solutions

Our Avid ISIS shared storage systems are real-time, open solutions that bring the power of shared storage to local, regional, national and multinational broadcasters and post-production facilities at competitive prices. Customers can improve allocation of creative resources and support changing project needs with an open shared storage platform that includes the ISIS file system technology on lower cost hardware, support for third-party applications and streamlined administration to create more content more affordably. In September 2013, we introduced ISIS 5500, designed to help small- to mid-sized media organizations more efficiently deliver higher quality content by streamlining and accelerating editorial workflows. In April 2014, we introduced ISIS 2500 as a new cost-effective near-line storage solution that allows customers to extend their library of accessible media assets. Our on-air solutions include AirSpeed 5000, which enables broadcasters to automate the control of ingest devices and the process of playing television programming to air. Introduced in 2012 and upgraded in June 2013, the AirSpeed 5000 video server works with a wide range of applications to improve workflow and provide cost-efficient play to air capability for broadcasters of any size.

Revenues from video storage and server solutions accounted for approximately 25%, 26% and 22% of our net revenues from continuing operations in 2013, 2012 and 2011 (Restated), respectively.

Media Management Solutions

Our MediaCentral | UX (formerly Interplay Central) web- and mobile-based apps extend the capability of our Interplay asset management solutions by providing real-time access to media assets for the on-the-go media professional. Interplay Media Asset Manager, or MAM, allows users to focus on creating content by giving them the tools to connect their media operations and workflows, control movement of media between Interplay MAM and storage systems, configure metadata, and leverage a service-oriented architecture structure to integrate in-house and third-party applications. Interplay Production Asset Management, or PAM, enhances production team collaboration by coordinating the collaborative editing workflow of team members at each site, many of whom may be working on the same projects at the same time. Interplay PAM also manages the detailed composition of a project and provides the ability to track media, production file formats and a project's history. Interplay solutions are delivered and supported by our customer success and professional services teams.

Revenues from media management solutions accounted for approximately 8%, 9% and 6% of our net revenues from continuing operations in 2013, 2012 and 2011 (Restated), respectively.

Consumer Video-Editing Software

During the third quarter of 2012, we divested our consumer video-editing product lines, including the former Avid Studio and Pinnacle Studio product lines. Revenue attributable to the divested consumer video-editing product lines is reflected in discontinued operations for all periods presented.

Audio Products and Solutions

Digital Audio Software and Workstation Solutions

Our Pro Tools digital audio software and workstation solutions facilitate the audio production process, including music and sound creation, recording, editing, signal processing, integrated surround mixing and mastering, and reference video playback. In April 2013, we released Pro Tools version 11 featuring a fully redesigned audio engine and 64-bit architecture. The Pro Tools platform supports a wide variety of internally developed and third-party software plug-ins and integrated hardware. Pro Tools solutions are offered at a range of price points and are used by professionals and aspiring professionals in music, film, television, radio, game, Internet and other media production environments.

Our Pro Tools HD family of digital audio workstations, designed to provide high performance, low latency, and great sound quality, provides music production professionals with two powerful solutions, the Pro Tools | HD Native system and the Pro Tools | HDX system. Our Pro Tools | HDX workstation represents a new generation of Pro Tools HD solutions by providing more power, higher audio quality, and easier ways to record, edit and mix demanding audio productions. The most recent addition to our Pro Tools | HD workstation family, the Pro Tools | HD Native Thunderbolt, uses a high-speed Thunderbolt interface to connect to a laptop or desktop computer to eliminate monitor latency while recording.

Our audio recording interfaces, including our Mbox, Fast Track and Eleven Rack products, are designed to deliver high audio quality plus hands-on controls giving musicians the tools to produce quality recordings in less time. Each interface is available as a bundle with Pro Tools software, Pro Tools Express, or standalone for use with other popular audio software.

Revenues from digital audio software and workstation solutions accounted for approximately 17%, 22% and 29% of our net revenues from continuing operations in 2013, 2012 and 2011 (Restated), respectively.

Control Surfaces, Consoles and Live-Sound Systems

We offer a range of complementary control surfaces and consoles, leveraging the open industry standard protocol EUCON (Extended User Control) to provide open solutions that meet the needs of customers ranging from the independent professional to the high-end broadcaster. Our System 5 digital audio console is a large-format, scalable console with power on demand to mix large feature films or album projects. The addition of our EUCON Hybrid option extends the control capabilities of a System 5 console, enabling the user to bring audio tracks from multiple digital audio workstations onto the console surface for mixing. In September 2013, we introduced our System 6 family of control surfaces for sound recording, mixing and editing, which was designed as a state-of-the-art modular solution that scales to meet both current and future customer requirements. Our Artist Series control surfaces offer integrated, hands-on control for price-sensitive applications. Compact and portable, all control surfaces in the Artist line feature EUCON, allowing hands-on control of the user’s applications.

Our ICON (Integrated Console) system features the D-Control and D-Command mixing surfaces, our high-end, expandable hardware control surfaces for tactile control of Pro Tools software and hardware. Our ICON systems can be customized to provide a solution for all sizes of studios, providing from 16 to 80 channels of simultaneous control. An ICON system, integrated with a Pro Tools | HD workstation and input-output and pre-amplification peripherals, provides an end-to-end solution for audio professionals.

Our VENUE product family includes console systems for mixing audio for live sound reinforcement for concerts, theater performances and other public address events. We offer a range of VENUE systems designed for large performance settings, such as stadium concerts, as well as medium-sized theaters and houses of worship. VENUE systems allow the direct integration of Pro Tools solutions to create and playback live recordings. In January 2012, we extended the VENUE family with the release of the VENUE SC48 Remote System. The VENUE SC48 Remote System features the VENUE SC48 digital console paired with the

VENUE Stage 48 remote box, enabling the user to place input/output devices away from the console and closer to the sources, eliminating cable clutter.

Building on the technology that is core to the ICON and System 5 product families, in September 2013 we announced a new addition to our family of control surfaces for sound recording, mixing and editing, Avid S6. Avid S6 is designed for audio professionals in demanding production environments, delivering the performance needed to complete projects faster while producing high quality mixes. Because Avid S6 features a modular design, it provides mixing professionals with a scalable solution that has flexibility in the number and placement of faders, knobs, and other controls on its surface.

In May of 2013, we introduced Avid S3L, which delivers the sound quality, performance, and features of Avid live systems in a modular, networked design. The open and flexible system is comprised of a high-performance HDX-powered mix engine running VENUE software and AAX DSP plug-ins, scalable remote I/O, a compact EUCON-enabled control surface, and Pro Tools software for integrated live sound mixing and recording. The streamlined networked design simplifies system set-up and configuration with drag-and-drop functionality, while direct Pro Tools recording and mixing capabilities open opportunities for live album releases. The compact S3L System can be taken on tour or installed in clubs, theaters, houses of worship, or other performance venues to meet a broad range of demands.

Revenues from control surfaces and live systems accounted for approximately 9%, 11% and 12% of our net revenues from continuing operations in 2013, 2012 and 2011 (Restated), respectively.

Notation Software

Our Sibelius-branded software allows users to create, edit and publish musical scores. Sibelius software is used by composers, arrangers and other music professionals. Student versions are also available to assist in the teaching of music composition and score writing. The newest version of our musical notation software, Sibelius 7, features a task-oriented user interface and native 64-bit performance. We also offer Avid Scorch, an application for the Apple iPad mobile device that turns an iPad into an interactive score library with access to sheet music through an in-app store with more than 150,000 premium titles.

Consumer Audio Products

During the third quarter of 2012, we divested our consumer audio product lines, including our desktop and studio monitors and MIDI keyboard/controller product lines. Revenue attributable to the divested consumer audio product lines is reflected in discontinued operations for all periods presented.

Professional Services and Customer Success

Our Professional Services team delivers workflow design and consulting; program and project management; system installation and commissioning; and role-based product level training. The Professional Services team facilitates the engagement with our customers to maximize their investment in technology; increase their operational efficiency; and enable them to reduce deployment risk and implement our solutions.

Our Customer Success team provides customers with a partner committed to giving them help and support when they need it. We offer a variety of services contracts and support plans, allowing each customer to select the level of technical and operational support that they need to maintain their operational effectiveness. Our global Customer Success team of more than 300 in-house and third-party industry professionals offers a blend of technology expertise and real-world experience from throughout the audio, visual, and entertainment industries. The team's mission is to

provide timely, informed responses to our customers' issues and proactive maintenance for our solutions to help our customers maintain high standards of operational effectiveness.

COMPETITION

Our customer markets are highly competitive and subject to rapid change and declining average selling prices. The competitive landscape is fragmented with a large number of companies providing various types of products and services in different markets and geographic areas. We provide integrated solutions that compete based on total value workflow, features, quality, service and price. Companies with which we compete in some contexts may also act as our partners in other contexts, such as large enterprise customer environments.

Companies that compete with us across certain of our products and solutions are listed below by the market in which they compete:

- Broadcast and Media: The Associated Press Inc., Belden Inc., Bitcentral Inc., Dalet S.A., EVS Corporation, Harmonic Inc., Imagine Communications Corp, Ross Video Limited and Vizrt Ltd., among others.
- Audio and Video Post and Professional: Ableton AG, Autodesk Inc., Blackmagic Design Pty Ltd, Harman International Industries Inc., Steinberg Media Technologies GmbH, Universal Audio Inc. and Yamaha Corporation, among others.

In addition, we compete across both previously mentioned markets with companies such as Adobe Systems Incorporated, Apple Inc., Editshare LLC, Quantel Limited and Sony Corporation.

Some of our principal competitors are substantially larger than we are and have greater financial, technical, marketing and other resources than we have. For a discussion of these and other risks associated with our competitors, see Item 1A, “Risk Factors.”

OPERATIONS

Sales and Services Channels

We market and sell our products and solutions through a combination of direct and indirect sales channels. Our direct sales channel consists of internal sales representatives serving select customers and markets, as well as our e-commerce sales programs. Our indirect sales channels include global networks of independent distributors, value-added resellers, dealers and retailers.

We have significant international operations with offices in 21 countries. Sales to customers outside the United States accounted for 61%, 61% and 59%, respectively, of our net revenues from continuing operations in 2013, 2012 and 2011 (Restated). Additional information about the geographic breakdown of our revenues and long-lived assets can be found in Note Q to our Consolidated Financial Statements in Item 8 of this Form 10-K. For additional information about risks associated with our international operations, see Item 1A, “Risk Factors” in Item 1A of this Form 10-K.

We generally ship our products shortly after the receipt of an order. However, a high percentage of our revenues has historically been generated in the third month of each fiscal quarter and concentrated in the latter part of that month. Orders that may exist at the end of a quarter and have not been shipped are not recognized as revenues and are included in revenue backlog.

Certain orders included in revenue backlog may be reduced, canceled or deferred by our customers. The timing of the recognition of revenue backlog is based on current estimates and could change based on a number of factors, including (i) the timing of delivery of products and services, (ii) customer cancellations or change orders, (iii) changes in the estimated period of time Implied Maintenance Release PCS is provided to customers or (iv) changes in accounting standards or policies. As there is no industry standard definition of revenue backlog, our reported revenue backlog may not be comparable with other companies. Additional information on our revenue backlog can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operation.”

We provide customer service and support directly through regional in-house and contracted support centers and major-market field service representatives and indirectly through dealers, value-added resellers and authorized third-party service providers. Depending on the solution, customers may choose from a variety of support offerings, including telephone and online technical support, on-site assistance, hardware replacement and extended warranty, and software upgrades. In addition to support services, we offer a broad array of professional services, including installation, integration, planning and consulting services, and customer training.

In September 2013, we announced the creation of the Avid Customer Association, or ACA, an initiative designed to provide strategic leadership to the media industry, collaborate with industry leaders and visionaries, and deepen relationships between us and our customers. The multifaceted program engages our network of broadcast, creative, and media customers to address issues facing the media industry today. The inaugural event of the ACA was held in April 2014 ahead of the 2014 National Association of Broadcasters conference. With over 1,000 broadcast, pro video, and pro audio leaders, technology and creative professionals, and industry influencers in attendance from 43 countries, we view the launch of the Avid Customer Association as the start of a new era of strategic leadership of the media industry.

Manufacturing and Suppliers

Our internal manufacturing operations consist primarily of the testing of subassemblies and components purchased from third parties, the duplication of software, and the configuration, final assembly and testing of board sets, software, related hardware components and complete systems. In addition to our internal manufacturing operations, we rely on a network of contractors around the globe to manufacture many of our products, components and subassemblies. Our products undergo testing and quality assurance at the final assembly stage. We depend on sole-source suppliers for certain key hardware product components and finished goods, including some critical items. Although we have procedures in place to mitigate the risks associated with our sole-sourced suppliers, we cannot be certain that we will be able to obtain sole-sourced components or finished goods from alternative suppliers or that we will be able to do so on commercially reasonable terms without a material impact on our results of operations or financial position. For the risks associated with our use of contractors and sole-source vendors, see "Risk Factors" in Item 1A of this Form 10-K.

Our company-operated manufacturing facilities, primarily for final assembly and testing of certain products, are located in: Dublin, Ireland and Mountain View, California. Our Dublin facility is ISO 14001, Environmental Management System, certified.

We and our contract manufacturers manufacture our products at a relatively limited number of different facilities located throughout the world, and, in most cases, the manufacturing of each of our products is concentrated in one or a few locations. An interruption in manufacturing capabilities at any of these facilities, as a result of equipment failure or other reasons, could reduce, delay or prevent the production of our products. Because some of our manufacturing or our contract manufacturer's operations are located outside of the United States, including in Ireland, China and Thailand, those manufacturing operations are also subject to additional challenges and risks associated with international operations. For these and other risks associated with our manufacturing operations, see "Risk Factors" in Item 1A of this Form 10-K.

Research and Development

We are committed to delivering best-in-class digital media content-creation solutions that are designed for the unique needs, skills and sophistication levels of our target customer markets. Having helped establish the digital media technology industry, we are building on a 25+-year heritage of innovation and leadership in developing content-creation solutions. We have research and development, or R&D, operations around the globe. Our R&D efforts are focused on the development of digital media content-creation, distribution, and monetization tools that operate primarily on the Mac and Windows platforms. Our R&D efforts also include networking and storage initiatives intended to deliver standards-based media transfer and media asset management tools, as well as stand-alone and network-attached media storage systems for workgroups. In addition to our internal R&D efforts, we outsource a significant portion of certain R&D projects to internationally based partners in Kiev, Ukraine and Thailand. Our R&D expenditures for 2013, 2012 and 2011 (Restated) were $95.2 million, $98.9 million and $111.1 million, respectively, which represented approximately 17%, 16% and 14%, respectively, of our net revenues from continuing operations. For the risks associated with our use of partners for R&D projects, see "Risk Factors" in Item 1A of this Form 10-K.

Our company-operated R&D operations are located in: Burlington, Massachusetts; Daly City, California; Mountain View, California; Munich, Germany; Kaiserslautern, Germany; and Montreal, Canada. We also partner with a vendor in Ukraine for outsourced R&D services and a vendor in Thailand for hardware R&D services.

Intellectual Property

We regard our software and hardware as proprietary and protect our proprietary interests under the laws of patents, copyrights, trademarks and trade secrets, as well as through contractual provisions.

We have obtained patents and have registered copyrights, trademarks and service marks in the United States and in many foreign countries. At December 31, 2013, we held 177 U.S. patents, with expiration dates through 2032, and had 37 patent applications pending with the U.S. Patent and Trademark Office. We have also registered or applied to register various trademarks and service marks in the United States and a number of foreign countries, including Avid, Avid Everywhere, Media Composer, Pro Tools and Sibelius. As a technology company, we regard our patents, copyrights, trademarks, service marks and trade secrets as being among our most valuable assets, together with the innovative skills, technical competence and marketing abilities of our personnel.

Our software is licensed to end users pursuant to shrink-wrap, embedded, click-through or signed paper license agreements. Our products generally contain features to guard against unauthorized use. Policing unauthorized use of computer software is difficult,

---

and software piracy is a persistent problem for us, as it is for the software industry in general. This problem is particularly acute in some of the international markets in which we operate. Although we attempt to protect our intellectual property rights through patents, trademarks, copyrights, licensing arrangements, maintaining certain technology as trade secrets and other measures, we cannot assure you that any patent, trademark, copyright or other intellectual property rights owned by us will not be invalidated, circumvented or challenged, that such intellectual property rights will provide competitive advantages to us, or that any of our pending or future patent applications will be issued with the claims, or the scope of the claims, sought by us, if at all. We cannot assure you that others will not develop technologies that are similar or superior to our technology, duplicate our technology or design around the patents that we own. In addition, effective patent, copyright and trade secret protection may be unavailable or limited in countries in which we do business or may do business in the future. For these and other risks associated with the protection of our intellectual property, see “Risk Factors” in Item 1A of this Form 10-K.

HISTORY AND EMPLOYEES

Avid was incorporated in Delaware in 1987. We are headquartered in Burlington, Massachusetts, with operations in North America, South America, Europe, Asia and Australia. At December 31, 2013, our worldwide workforce consisted of 1,478 employees and 380 external contractors, and at June 30, 2014 our workforce consisted of 1,409 employees and 414 external contractors.

AVAILABLE INFORMATION

We make available free of charge on our website, www.avid.com, copies of our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and all amendments to those reports as soon as practicable after filing with the Securities and Exchange Commission, or SEC. Additionally, we will provide paper copies of all of these filings free of charge upon request. Alternatively, these reports can be accessed at the SEC’s Internet website at www.sec.gov. The information contained on our web site shall not be deemed incorporated by reference in any filing under the Securities Act or the Exchange Act.

ITEM 1A. RISK FACTORS

You should carefully consider the risks and uncertainties described below in addition to the other information included or incorporated by reference in this Form 10-K before making an investment decision regarding our common stock. If any of the following risks were to actually occur, our business, financial condition or operating results would likely suffer, possibly materially, the trading price of our common stock could decline, and you could lose part or all of your investment. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business.

Risks related to our restatement, accounting review, internal controls and delisting

We have identified control deficiencies that individually and when aggregated represent material weaknesses in our internal control over financial reporting and have concluded that our internal control over financial reporting and our disclosure controls and procedures were not effective as of December 31, 2013. If we fail to properly remediate these or any future weaknesses or deficiencies or maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired and our reputation could be harmed, which could negatively impact our stock price and damage our business.

We have concluded that our internal control over financial reporting was not effective as of December 31, 2013 due to the existence of material weaknesses in such controls, and we have also concluded that our disclosure controls and procedures were not effective as of December 31, 2013 due to material weaknesses in our internal control over financial reporting. In the second quarter of 2013, we determined that we needed to restate revenue for millions of customer transactions for interim and annual periods ended during the periods from January 1, 2005 to September 30, 2012 (the Restatement Periods) to correct errors in our historically issued financial statements. In addition, certain other adjustments arose in the Restatement Periods that were deemed material and were adjusted in the restated financial statements for the Restatement Periods. The errors in the misapplication of GAAP over revenue recognition and the other errors identified resulted from several control deficiencies that were in existence during the Restatement Periods and at December 31, 2013, as described in Part II, Item 9A, “Controls and Procedures,” of this Annual Report on Form 10-K.
While we initiated meaningful remediation efforts in 2013 to address the identified weaknesses, due to the significant attention and efforts devoted to the revenue restatement project, we were not able to fully implement new control procedures as of December 31, 2013 and we cannot assure you that our remediation efforts will be adequate to allow us to conclude that such controls will be effective as of December 31, 2014. We also cannot assure you that additional material weaknesses in our internal control over financial reporting will not arise or be identified in the future. We intend to continue our control remediation activities and also to continue to improve our operational, information technology, financial systems, and infrastructure, procedures and controls, as well as to continue to expand, train, retain, and manage our personnel who are essential to effective internal control. In doing so, we will continue to incur expenses and expend management time on compliance-related issues.
If we fail to successfully remediate our material weaknesses and implement appropriate controls, we may not be able to prevent or detect a material misstatement in our financial statements on a timely basis or at all. Such misstatements could result in a future restatement of our financial statements, could cause us to fail to meet our reporting obligations, or could cause investors to lose confidence in our reported financial information, leading to a decline in our stock price or litigation. Furthermore, our reputation could be harmed and our customers’ and partners’ confidence in us may be impaired, all of which could damage our business. For a discussion of the material weaknesses, please see Part II, Item 9A, “Controls and Procedures,” of this Form 10-K.

The extraordinary processes underlying the preparation of the financial statements contained in this report may not have been adequate and our financial statements remain subject to the risk of future restatement.

The completion of our audits for the years ended December 31, 2012, and 2013, the restatement of our financial statements for the years ended December 31, 2011, and the accounting review undertaken in connection therewith, involved many months of review and analysis, including an evaluation of more than 700 software updates and the proper application of generally accepted accounting principles, or GAAP, and other accounting rules and pronouncements. Given the complexity and scope of these exercises, and notwithstanding the very extensive time, effort, and expense that went into them, we cannot assure you that these extraordinary processes were adequate or that additional accounting errors will not come to light in the future in these or other areas.

If additional accounting errors come to light in areas reviewed as part of the extraordinary processes described above, future review or otherwise, or if ongoing interpretations of applicable accounting rules and pronouncements result in unanticipated changes in our accounting practices or financial reporting, we may be required to restate our financial statements, which could cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information. These consequences could, in turn, lead to a decline in our stock price, litigation, harm to our reputation, and a loss of confidence in us by our customers and partners, all of which could damage our business.

We cannot assure you that our regular financial statement preparation and reporting processes are or will be adequate or that future restatements will not be required.

As discussed in the preceding risk factor, the processes underlying the preparation of the financial statements contained in this report were extraordinary. While we expect to continue to rely on these extraordinary processes to prepare our quarterly and annual financial statements during the year ending December 31, 2014, we expect that we will also increasingly rely on our regular financial statement preparation and reporting processes. While we have significantly changed and enhanced these regular processes (as described elsewhere in this report), as of the filing date of this report, previously identified material weaknesses in our internal control over financial reporting have not have been fully remediated and we continue to:

- make changes to our finance organization;
- adopt new accounting and reporting processes and procedures;
- enhance our revenue recognition and other existing accounting policies and procedures;
- introduce new or enhanced accounting systems and processes; and
- improve our internal control over financial reporting.

Many of these changes and enhancements to our regular processes are ongoing as of the filing date of this report and we continue to assimilate the complex and pervasive changes we have already made. We cannot assure you that the changes and enhancements made to date, or those that are still in process, are adequate, will operate as expected, or will be completed in a timely fashion (if still in process). As a result, we cannot assure you that we will not discover additional errors, that future financial reports will not contain material misstatements or omissions, that future restatements will not be required, that we will be able to timely complete our remaining SEC filings for periods subsequent to this report, or that we will be able to stay current with our reporting obligations in the future.

We have been named in class action lawsuits related to the circumstances that gave rise to our extended filing delay and restatement, and such delays and restatement continue to create the risk of further litigation against us, which could be expensive and could damage our business.

We and certain of our former executive officers have been named in class action lawsuits relating to our restatement. The pending litigation, and any future litigation or action that may be filed against us, our current or former directors or officers may be time consuming and expensive, and may distract management from the conduct of our business. Any such litigation or action could have a material adverse effect on our business, financial condition, and results of operations, and may expose us to costly indemnification obligations to current or former officers, directors, or other personnel, regardless of the outcome of such matter.

We are the subject of SEC and Department of Justice inquiries relating to the accounting issues giving rise to our restatement. These government inquiries or any future inquiries to which we may become subject could result in penalties and/or other remedies that could have a material adverse effect on our financial condition and results of operation.

We are the subject of SEC and U.S. Attorney's Office for the District of Massachusetts or, DOJ, inquiries relating to the accounting matters giving rise to the restatement. We have fully cooperated, and intend to continue to fully cooperate, if called upon to do so, with the SEC and the DOJ regarding this matter. We have no assurance that one or both will not further pursue the matter.

We cannot predict the outcome of any of the foregoing unresolved proceedings or whether we will face additional government inquiries, investigations, or other actions related to these or other matters. An adverse ruling in any SEC enforcement action or other regulatory proceeding could impose upon us fines, penalties, or other remedies, which could have a material adverse effect on our results of operations and financial condition. Even if we are successful in defending against an SEC enforcement action or other regulatory proceeding, if any, such an action or proceeding may be time consuming, expensive, and distracting from the conduct of our business and could have a material adverse effect on our business, financial condition, and results of operations. In

the event of any such action or proceeding, we may also become subject to costly indemnification obligations to current or former officers, directors, or employees, who may not be covered by insurance.

We may not have sufficient insurance to cover our liability in any current or future litigation claims either due to coverage limits or as a result of insurance carriers seeking to deny coverage of such claims.

We face a variety of litigation-related liability risks, including liability for indemnification of (and advancement of expenses to) current and former directors, officers, and employees under certain circumstances, pursuant to our certificate of incorporation, bylaws, other applicable agreements, and/or Delaware law.

Our directors and officers were included in a director and officer liability insurance policy, which covers all our directors and officers. Our insurance coverage under our policies may not be adequate to cover any indemnification or other claims against us. In addition, the underwriters of our present coverage may seek to avoid coverage in certain circumstances based upon the terms of the respective policies, in which case we would have to self-fund any indemnification amounts owed to our directors and officers and bear any other uninsured liabilities.

If we do not have sufficient directors and officers insurance coverage under our present or historical insurance policies, or if our insurance underwriters are successful in avoiding coverage, our results of operations and financial condition could be materially adversely affected.

The delay in completing our financial statements, and any future failure to timely file required periodic reports with the SEC, may adversely affect our ability to raise, and the cost of raising, future capital.

Prior to the filing of this Form 10-K and the quarterly reports for fiscal year 2013 and the first and second quarters of 2014, our financial reporting is delinquent. We are therefore unable to register securities for sale by us or for resale by other security holders, which adversely affects our ability to raise capital. We will be unable to register securities for sale by us or for resale by other security holders during any period when we are delinquent in our filing obligations. In addition, after we become current in our reporting obligations, we will remain ineligible to use Form S-3 to register securities until we have timely filed all periodic reports under the Exchange Act for at least 12 calendar months. During such time, we would need to use Form S-1 to register securities with the SEC (whether for capital raising transactions by us or to permit the resale of our securities by security holders), or issue such securities in private placements. Either of these alternatives entails greater costs, and may require more time to effect, than registering shares on Form S-3. As a result, our ability to raise capital, and the cost of raising future capital, could be adversely affected.

We cannot assure you that our common stock will be re-listed, or that once re-listed, it will remain listed.

As a result of the delay in filing our periodic reports with the SEC, we were unable to comply with the listing standards of NASDAQ and our common stock was suspended from trading effective February 25, 2014 and formally de-listed effective May 2, 2014. Following the filing of our delayed periodic reports, we intend to apply to re-list our common stock with NASDAQ; however, there can be no assurance that we will be able to re-list our common stock in an expeditious manner or at all. Even if our common stock is re-listed, unless we are able to timely comply with our SEC reporting obligations in the future, our common stock may again be de-listed. If we cannot re-list our common stock or if it is de-listed again in the future, the price of our common stock will likely be adversely affected and there may be a decrease in the liquidity of our common stock.

Risks Related to Our Business and Industry

If we are unable to successfully execute on our business transformation, our business, financial condition, and results of operations could be adversely affected.

Following our management change in early 2013, we started a significant business transformation process with the goal of achieving long-term growth. As part of this process, we adopted a number of key strategic initiatives to drive revenue growth, improve our long-term profitability, effect a cultural transformation at our company and redefine and develop our products and services, including the introduction of Avid Everywhere. The implementation of some of these initiatives may require additional capital that we may not have access to on reasonable terms or at all. Moreover, the pace and scope of this transformation increases the risk that not all of our strategic initiatives will deliver the expected benefits within the anticipated time frames, or at

all. If we are unable successfully to execute on our transformation, our business, financial condition, and results of operations could be adversely affected.

We operate in highly competitive market, and our competitors may be able to draw upon a greater depth and breadth of resources than those that are available to us.

We operate in highly competitive markets characterized by pressure to innovate, expand feature sets and functionality, accelerate new product releases and reduce prices. Markets for certain of our products also have limited barriers to entry. There is an additional risk of consolidation among our competitors, which could result in fewer, more effective competitors. Customers consider many factors when evaluating our products relative to those of our competitors, including innovation, ease of use, price, feature sets, functionality, reliability, performance, reputation, and training and support, and we may not compare favorably against our competitors in all respects. Our restatement process may have had a negative impact on our reputation among our customers. Some of our current and potential competitors have longer operating histories, greater brand recognition and substantially greater financial, technical, marketing, distribution and support resources than we do. As a result, they may be able to deliver greater innovation, respond more quickly to new or emerging technologies and changes in market demand, devote more resources to the development, marketing and sale of their products, successfully expand into emerging and other international markets, or price their products more aggressively than we can.

If our competitors are more successful than we are in developing products or in attracting and retaining customers, our financial condition and operating results could be adversely affected.

The rapid evolution of the media industry is changing our customers' needs, businesses and revenue models, and if we cannot anticipate or adapt quickly, our business will be harmed.

The media industry has rapidly and dramatically transformed over the past few years and is continuing to do so as free content, minimal entry costs for creation and distribution, and the expansion of mobile devices have become prevalent. As a result, our traditional customers' needs, businesses and revenue models are changing, often in ways that deviate from our core strengths and traditional bases. If we cannot anticipate these changes or adapt to them quickly, our business will be harmed. For example, our customers have to address the increasing digitization of the media industry, which requires the creation of a more seamless value chain between content creation and monetization. Furthermore, because of the consumerization of the media industry, there is more pressure to create media that can be repurposed in a variety of ways in an efficient manner. As a result of these industry changes, traditional advertising channels are also facing competition from web and mobile platforms and diminished revenues from traditional advertising will cause some customers' budgets for the purchase of our solutions to decline; this may be particularly true among local television stations, which in the past have been an important customer industry for us. Additionally, our customers may also seek to pool or share facilities and resources with others in their industry and engage with providers of software as a service.

While we continually assess new products and solutions for our customers and are in the process of developing our Avid Everywhere strategy and platform designed to address changes in the industry by offering an open platform that will enable people to connect, collaborate, store, manage, distribute, share and monetize media assets, the changes in the industry may reduce demand for some of our existing products and services. Our competitive landscape continues to evolve as the media industry rapidly evolves. New or non-traditional competitors may arise or adapt in response to this evolution of the media industry, which could create downward price pressure on our products and solutions and reduce our market share and revenue opportunities.

Our success depends in significant part on our ability to provide innovative products and solutions in response to dynamic and rapidly evolving market demand.

To succeed in our market, we must deliver innovative products and solutions. Innovation requires both that we accurately predict future market trends and customer expectations and that we quickly adapt our development efforts in response. We also have the challenge of protecting our product roadmap and new product initiatives from leaks to competitors that might reduce or eliminate any innovative edge that we seek to gain. Predicting market trends is difficult, as our market is dynamic and rapidly evolving. Additionally, given the complex, sophisticated nature of our solutions and our typically lengthy product development cycles, we may not be able to rapidly change our product direction or strategic course. If we are unable to accurately predict market trends or adapt to evolving market conditions, our ability to capture customer demand will suffer and our market reputation and financial performance will be negatively affected. Even to the extent we make accurate predictions and possess the requisite flexibility to

adapt, we may be able to pursue only a handful of possible innovations as a result of limited resources. Our success, therefore, further depends on our ability to identify and focus on the most promising innovations.

When we do introduce new products, our success depends on our ability to manage a number of risks associated with new products including but not limited to timely and successful product launch, market acceptance, and the availability of products in appropriate locations, quantities and costs to meet demand. For example, we have focused a significant part of our development efforts on developing our Avid Everywhere Platform, discussed in the preceding risk factor. There can be no assurance that these efforts will be successful in the near future, or at all, or that our competitors will not take significant market share in similar efforts. If we fail to develop new products and to manage new product introductions and transitions properly, our financial condition and operating results could be harmed.

Our international operations expose us to legal, regulatory and other risks that we may not face in the United States.

We derive more than half of our revenues from customers outside of the United States, and we rely on foreign contractors for the supply and manufacture of many of our products. We also conduct significant research and development activities overseas, including through third-party development vendors. For example, a significant part of our research and development is outsourced to contractors operating in Kiev, Ukraine and Thailand. Our international operations are subject to a variety of risks that we may not face in the United States, including:

- the financial and administrative burdens associated with compliance with a myriad of environmental, tax and export laws, as well as other business regulations in foreign jurisdictions, including high compliance costs, inconsistencies among jurisdictions, and a lack of administrative or judicial interpretative guidance;
- reduced or varied protection for intellectual property rights in some countries;
- regional economic downturns;
- economic, social and political instability abroad and international security concerns in general;
- fluctuations in foreign currency exchange rates;
- longer collection cycles for accounts receivable payment cycles and difficulties in enforcing contracts;
- difficulties in managing and staffing international implementations and operations, and executing our business strategy internationally;
- potentially adverse tax consequences, including the complexities of foreign value added or other tax systems and restrictions on the repatriation of earnings;
- increased financial accounting and reporting burdens and complexities;
- compliance with the applicable laws and regulations, including, for example, the U.S. Foreign Corrupt Practices Act, or FCPA, and the U.K. Bribery Act, particularly in emerging market countries;
- difficulties in maintaining effective internal controls over financial reporting and disclosure controls;
- costs and delays associated with developing products in multiple languages; and
- foreign exchange controls that may prevent or limit our ability to repatriate income earned in foreign markets.

Our overall success in international markets depends, in part, on our ability to succeed in differing legal, regulatory, economic, social and political conditions. We may not be successful in developing, implementing or maintaining policies and strategies that will be effective in managing these risks in each country where we do business. Our failure to manage these risks successfully, including developing appropriate contingency plans for our outsourced research and development work, could harm our international operations, reduce our international sales and increase our costs, thus adversely affecting our business, operating results and financial condition.

We have a significant relationship with a development vendor operating in Kiev, Ukraine and manufacturing vendors operating in China and Thailand, and changes to those relationships may result in delays or disruptions that could harm our business.

We rely on an offshore software development vendor for developing and servicing our products primarily from its offices in Kiev, Ukraine and manufacturing vendors for manufacturing certain of our products and developing hardware primarily in China and Thailand. If one of those vendors were, for any reason, to cease or experience significant disruptions in its operations, among others as a result of political unrest, we might be unable to replace it on a timely basis with a comparably priced provider. We would also have to expend time and resources to train any new development or manufacturing vendor. If any of the vendors were to suffer an interruption in its business, or experience delays, disruptions or quality control problems in development or

manufacturing operations, or if we had to change development or manufacturing vendors, our ability to provide services to our customers would be delayed and our business, operating results and financial condition would be adversely affected.

We operate in many different jurisdictions and we could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and similar foreign anti-corruption laws.

The FCPA, and similar foreign anti-corruption laws generally prohibit companies and their intermediaries from offering, promising, authorizing, or making payments to foreign officials for the purpose of influencing any act or decision of such official in his or her official capacity, inducing the official to do any act in violation of his or her lawful duty, or to secure any improper advantage in obtaining or retaining business. Recent years have seen a substantial increase in the global enforcement of anti-corruption laws, with more frequent voluntary self-disclosures by companies, aggressive investigations and enforcement proceedings by both the DOJ and the SEC resulting in record fines and penalties, increased enforcement activity by non-U.S. regulators, and increases in criminal and civil proceedings brought against companies and individuals.

Our internal policies mandate compliance with these anti-corruption laws. We operate in many parts of the world that are recognized as having governmental corruption problems to some degree and where local customs and practices may not foster strict compliance with anti-corruption laws. Our continued operation and expansion outside the United States could increase the risk of such violations in the future. Despite our training and compliance programs, we cannot assure you that our internal control policies and procedures will protect us from unauthorized reckless or criminal acts committed by our employees or agents. In the event that we believe or have reason to believe that our employees or agents have or may have violated applicable anti-corruption laws, including the FCPA, we may be required to investigate or have outside counsel investigate the relevant facts and circumstances, which can be expensive and require significant time and attention from senior management. Violations of these laws may result in severe criminal or civil sanctions, which could disrupt our business and result in a material adverse effect on our reputation, business, results of operations or financial condition.

Our engagement of contractors for product development and manufacturing may reduce our control over those activities, provide uncertain cost savings and expose our proprietary assets to greater risk of misappropriation.

We outsource a portion of our software development and our hardware design and manufacturing to contractors, both domestic and offshore. These relationships provide us with more flexible resource capabilities, access to global talent and cost savings, but also expose us to risks that may not exist or may be less pronounced with respect to our internal operations. We are able to exercise only limited oversight of our contractors, including with respect to their engineering and manufacturing processes, resource allocations, delivery schedules, security procedures and quality control. Language, cultural and time zone differences complicate effective management of contractors that are located abroad. Additionally, competition for talent in certain locations may lead to high turnover rates that disrupt development or manufacturing continuity. The manufacturers we use also manufacture products for other companies, including our competitors. Our contractors could choose to prioritize capacity for other users, increase the prices they charge us or reduce or eliminate deliveries to us, which could have a material adverse effect on our business. Moreover, if any of our third-party manufacturing suppliers suffer any damage to facilities, lose benefits under material agreements, experience power outages, lack sufficient capacity to manufacture our products, encounter financial difficulties or are unable to secure necessary raw materials from their suppliers, or suffer any other disruption or reduction in efficiency, we may encounter supply delays or disruptions. Pricing terms offered by contractors may be highly variable over time reflecting, among other things, order volume, local inflation and exchange rates. For example, during the past few years, including in 2013, most of our outsourced manufacturers have been in China, where the cost of manufacturing has been increasing and labor unrest and turn-over rates at manufacturers have been on the rise. Some of our contractor relationships are based on contract, while others operate on a purchase order basis,

where we do not have the benefit of written protections with respect to pricing or other critical terms.

Many of our contractors require access to our intellectual property and our confidential and proprietary information to perform their services. Protection of these assets in relevant offshore locations may be less robust than in the United States. We must rely on policies and procedures we have instituted with our contractors and certain confidentiality and contractual provisions in our written agreements, to the extent they exist, for protection. These safeguards may be inadequate to prevent breaches. If a breach were to occur, available legal or other remedies may be limited or otherwise insufficient to compensate us for any resulting damages.

Certain of our contractor relationships involve complex and mission-critical dependencies. If any of the preceding risks were to occur, we might not be able to rapidly wind down these relationships or quickly transition to alternative providers.

We obtain hardware product components and finished goods under sole-source supply arrangements, and any disruptions to these arrangements could jeopardize the manufacturing or distribution of certain of our hardware products.

Although we generally prefer to establish multi-source supply arrangements for our hardware product components and finished goods, multi-source arrangements are not always possible or cost-effective. We consequently depend on sole-source suppliers for certain hardware product components and finished goods, including some critical items. We do not generally carry significant inventories of, and may not in all cases have guaranteed supply arrangements for, these sole-sourced items. If any of our sole-source suppliers were to cease, suspend or otherwise limit production or shipment (due to, among other things, macroeconomic events, political crises or natural or environmental disasters or other occurrences), or adversely modify supply terms or pricing, our ability to manufacture, distribute and service our products may be impaired and our business could be harmed. We cannot be certain that we will be able to obtain sole-sourced components or finished goods, or acceptable substitutes, from alternative suppliers or that we will be able to do so on commercially reasonable terms. We may also be required to expend significant development resources to redesign our products to work around the exclusion of any sole-sourced component or accommodate the inclusion of any substitute component.

Our success depends in part on our ability to hire and retain competent and skilled management and technical, sales and other personnel.

We are highly dependent upon the continued service and performance of our management team and key technical, sales and other personnel and our success will depend in part upon our ability to retain these employees in a competitive job market. If we fail to appropriately match the skill sets of our employees to our needs we may incur increased costs or experience challenges with execution of our strategic plan. We rely on cash bonuses and equity awards as significant compensation and retention tools for key personnel. In addition to compensation, we seek to foster an innovative work culture to retain employees. We also rely on the attractiveness of developing technology for the film, television and music industries as a means of retention. However, we also face challenges in attracting and retaining key personnel as a result of the workload and stress associated with our business transformation efforts, the restatement, management change, and employee turnover.

Our competitors may in some instances be able to offer a more established or more dynamic work environment, higher compensation or more opportunities to work with cutting-edge technology than we can. If we are unable to retain our key personnel or appropriately match skill sets with our needs, we would be required to expend significant time and financial resources to identify and hire new qualified personnel and to transfer significant internal historical knowledge, which might significantly delay or prevent the achievement of our business objectives.

Changes in our leadership team and the ongoing transition within our Company could have a material adverse impact on our business, operating results or financial condition.

During 2013, we experienced changes in our leadership team and have taken and continue to take actions to transform our company strategically, operationally and culturally through a series of overarching initiatives all intended to drive improved operating performance both in the U.S and internationally. The uncertainty inherent in such a transition may be difficult to manage, may cause concerns from current and potential customers, suppliers and other third parties with whom we do business, and may increase turnover of other key officers and employees. This could have a material adverse impact on our business, operating results or financial condition.

We depend on the availability and proper functioning of certain third-party technology that we incorporate into or bundle with our products. Third-party technology may include defects or errors that could adversely affect the performance of our products. If third-party technology becomes unavailable, we may need to expend considerable resources integrating alternative third-party technology or developing our own substitute technology.

We license third-party technology for incorporation into or bundling with our products. This technology may provide us with critical or strategic feature sets or functionality. The profit margin for each of our products depends in part on the royalty, license and purchase fees we pay in connection with third-party technology. To the extent we add additional third-party technology to our products and we are unable to offset associated costs, our profit margins may decline and our operating results may suffer. In

addition to cost implications, third-party technology may include defects or errors that could adversely affect the performance of our products, which may harm our market reputation or adversely affect our product sales. Third-party technology may also include certain open source software code that if used in combination with our own software may jeopardize our intellectual property rights or limit our ability to sell through certain sales channels. If any third-party technology license expires, is terminated or ceases to be available on commercially reasonable terms, we may be required to expend considerable resources integrating alternative third-party technology or developing our own substitute technology. In the interim, sales of our products may be delayed or suspended or we may be forced to distribute our products with reduced feature sets or functionality.

Lengthy procurement lead times and unpredictable life cycles and customer demand for some of our products may result in significant inventory risks.

With respect to many of our products, particularly our audio products, we must procure component parts and build finished inventory far in advance of product shipments. Certain of these products may have unpredictable life cycles and encounter rapid technological obsolescence as a result of dynamic market conditions. We procure product components and build inventory based upon our forecasts of product life cycle and customer demand. If we are unable to accurately forecast product life cycle and customer demand or unable to manage our inventory levels in response to shifts in customer demand, the result may be insufficient, excess or obsolete product inventory. Insufficient product inventory may impair our ability to fulfill product orders and negatively affect our revenues, while excess or obsolete inventory may require a write-down on products and components to their net realizable value, which would negatively affect our results of operations.

Our revenues and operating results depend significantly on our third-party reseller and distribution channels. Our failure to adequately manage the delivery model for our products and services could adversely affect our revenues and gross margins and therefore our profitability.

We distribute many of our products indirectly through third-party resellers and distributors. We also distribute products directly to end-user customers. Successfully managing the interaction of our direct and indirect channel efforts to reach various potential customer industries for our products and services is a complex process. For example, in response to our direct sales strategies or for other business reasons, our current resellers and distributors may from time to time choose to resell our competitors' products in addition to, or in place of, ours. Moreover, since each distribution method has distinct risks and gross margins, our failure to identify and implement the most advantageous balance in the delivery model for our products and services could adversely affect our revenues and gross margins and therefore our profitability.

In addition, some of our resellers and distributors have rights of return, as well as inventory stock rotation and price protection. Accordingly, reserves for estimated returns and exchanges, and credits for price protection, are recorded as a reduction of revenues upon applicable product shipment, and are based upon our historical experience. Our reliance upon indirect distribution methods may reduce visibility to demand and pricing issues, and therefore make forecasting more difficult and, to the extent that returns exceed estimates, our revenues and operating results may be adversely affected.

Failure of our information systems or breaches of data security could impact our business.

Our systems and processes involve the storage and transmission of proprietary information and sensitive or confidential data, including personal information of employees, customers and others. In addition, we rely on information systems controlled by third parties. Information system failures, network disruptions and system and data security breaches, manipulation, destruction or leakage, irrespective of whether intentional or accidental, could impede development, manufacture or shipment of products, interrupt or delay processing of transactions and reporting

financial results or result in the unintentional disclosure of proprietary, sensitive or confidential information. Such information system failures or unauthorized access could be caused by external theft or attack, misconduct by our employees, contractors, or vendors, or other causes such as earthquake, fire or other natural disasters. Such information system failures or unauthorized access could expose us, our customers or the individuals affected to a risk of loss or misuse of this information, resulting in litigation and potential liability for us, as well as the loss of existing or potential customers and damage to our brand and reputation. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

Our products may experience quality issues that could negatively impact our customer relationships, our market reputation and our operating results.

Our software products, as is typical of sophisticated, complex software, occasionally include coding defects or errors (commonly referred to as “bugs”), which in some cases may interfere with or impair a customer’s ability to operate or use the software. Similarly, our hardware products could include design or manufacturing defects that could cause them to malfunction. Although we employ quality control measures, those measures are not designed or intended to detect and remedy all defects. The time and resources available to devote to quality control measures are, in part, dependent on other business considerations, such as meeting customer expectations with respect to release schedules. Any product defects could result in loss of customers or revenues, delays in revenue recognition, increased product returns, damage to our market reputation and significant warranty or other expense and could have a material adverse impact on our financial condition and operating results.

Potential acquisitions could be difficult to consummate, integrate, disrupt our business, dilute stockholder value or impair our financial results.

As part of our business strategy, from time to time we may acquire companies, technologies and products that we believe can improve our ability to compete in our existing customer markets or will allow us to enter new markets. The potential risks associated with any acquisition include, but are not limited to:

- failure to realize anticipated returns on investment, cost savings and synergies;
- difficulty in assimilating the operations, policies and personnel of the acquired company;
- combining product offerings and entering into new markets in which we may not have experience;
- distraction of management’s attention from normal business operations;
- potential loss of key employees of the acquired company;
- difficulty implementing effective internal controls over financial reporting and disclosure controls and procedures;
- impairment of relationships with customers or suppliers;
- possibility of incurring impairment losses related to goodwill and intangible assets; and
- unidentified issues not discovered in due diligence, which may include product quality issues or legal or other contingencies.

In order to complete an acquisition, we may need to obtain additional financing, including through the issuance of debt or equity. This could potentially dilute stockholder value for existing stockholders. We may borrow to finance an acquisition, and the amount and terms of any potential future acquisition-related borrowings, as well as other factors, could affect our liquidity and financial condition and potentially our credit ratings. We may not be able to consummate such financings on commercially reasonable terms, or at all, in which case our ability to implement our business strategy and as a result our financial results may be impaired. In addition, our effective tax rate on an ongoing basis is uncertain, and business combinations and investment transactions could impact our effective tax rate. We may experience risks relating to the challenges and costs of closing a business combination or investment transaction and the risk that an announced business combination or investment transaction may not close. As a result, any completed, pending or future transactions may contribute to financial results that differ from the investment community’s expectations in a given quarter.

Our intellectual property and trade secrets are valuable assets that may be subject to third-party infringement and misappropriation.

As a technology company, our intellectual property and trade secrets are among our most valuable assets. Infringement or misappropriation of these assets results in lost revenues to us and thereby ultimately reduces their value. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality procedures, contractual provisions and anti-piracy technology in certain of our products to protect our intellectual

property and trade secrets. Most of these tools require vigilant monitoring of competitor and other third-party activities and of end-user usage of our products to be effective. These tools may not provide adequate protection in all instances, may be subject to circumvention, or may require a vigilance that in some cases exceeds our capabilities or resources. Additionally, our business model is increasingly focused on software products and as we offer more software products our revenues may be more vulnerable to loss through piracy, which could result in revenue losses for us. While we may seek to engage with those potentially infringing our intellectual property to negotiate a license for use, we also may seek legal recourse. The legal regimes of certain countries in which we operate may not protect our intellectual property or trade secrets to the same extent as do the laws of the United States. Regardless of jurisdiction, assuming legal protection exists and infringement or misappropriation is detected, any enforcement action that we may pursue could be

costly and time-consuming, the outcome will be uncertain, and the alleged offender in some cases may seek to have our intellectual property rights invalidated. If we are unable to protect our intellectual property and trade secrets, our business could be harmed.

Our results could be materially adversely affected if we are accused of, or found to be, infringing third parties' intellectual property rights.

Because of technological change in our industry, extensive and sometimes uncertain patent coverage, and the rapid issuance of new patents, it is possible that certain of our products or business methods may infringe the patents or other intellectual property rights of third parties. Companies in the technology industry own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. Our technologies may not be able to withstand any third-party claims or rights against their use. We have received claims and are subject to litigation alleging that we infringe patents owned by third parties and may in the future be the subject to such claims and litigation. Regardless of the scope or validity of such patents or the merits of any patent claims by potential or actual litigants, we could incur substantial costs in defending intellectual property claims and litigation, and such claims and litigation could distract management's attention from normal business operations. In addition, we provide indemnification provisions in agreements with certain customers covering potential claims by third parties of intellectual property infringement. These agreements generally provide that we will indemnify customers for losses incurred in connection with an infringement claim brought by a third party with respect to our products, and we have received claims for such indemnification. The results of any intellectual property litigation to which we are, or may become, a party, or for which we are required to provide indemnification, may require us to:

- cease selling or using products or services that incorporate the challenged intellectual property;
- make substantial payments for legal fees, settlement payments or other costs or damages;
- obtain a license, which may not be available on reasonable terms, to sell or use the relevant technology, which such license could require royalties that would significantly increase our cost of goods sold; or
- redesign products or services to avoid infringement, which such redesign could involve significant costs and result in delayed and/or reduced sales of the affected products.

If we are unable to sell our professional products through retail sales channels, our operating results could be adversely affected.

Following the divestiture of certain of our consumer product lines in July 2012, we continue to have a presence in retail because our professional-level products are offered through specialty retail stores. Our ability to continue to sell our professional products through certain retail sales channels may be impaired because we will sell fewer types of products and fewer units through those channels, impacting retailers' willingness to carry our professional-level products.

Unanticipated changes in our tax provisions, the adoption of new tax legislation or exposure to additional tax liabilities could affect our profitability.

We are subject to income and other taxes in the United States and numerous foreign jurisdictions. Our tax liabilities are affected by the amounts we charge for inventory, services, licenses and other items in intercompany transactions. We are also subject to ongoing tax audits in various jurisdictions. Tax authorities may disagree with our intercompany charges, cross-jurisdictional transfer pricing or other matters and assess additional taxes. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision. However, there can be no assurance that we will accurately predict the outcomes of these audits, and the amounts ultimately paid upon the resolution of an audit could be materially different from the amounts previously included in our income tax expense and therefore could have a material impact on our tax provision, net income and cash flows. In addition, our tax

provision in the future could be adversely affected by changes to our operating structure, changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws and the discovery of new information in the course of our tax return preparation process.

We may be the subject of litigation, which, if adversely determined, could harm our business and operating results.

We may be subject to claims arising in the normal course of business. The costs of defending any litigation, whether in cash expenses or in management time, could harm our business and materially and adversely affect our operating results and cash flows. An unfavorable outcome on any litigation matter could require that we pay substantial damages, or, in connection with any

---

intellectual property infringement claims, could require that we pay ongoing royalty payments or prohibit us from selling certain of our products. In addition, we may decide to settle any litigation, which could cause us to incur significant settlement costs. A settlement or an unfavorable outcome on any litigation matter could have a material and adverse effect on our business, operating results, financial condition and cash flows.

A natural disaster or catastrophic event may significantly limit our ability to conduct business as normal and harm our business.

Our operations and the operations of our customers are vulnerable to interruptions by natural disasters or catastrophic events. For example, we operate a complex, geographically dispersed business, which includes significant personnel, customers and facilities presence in California near major earthquake fault lines. We may not be able to protect our company from such catastrophic events and we are predominantly uninsured for business continuity losses and disruptions caused by catastrophic events. Disruption or failure of our or our customers' networks or systems, or injury or damage to either parties' personnel or physical infrastructure, caused by a natural disaster, public health crisis, terrorism, cyber attack, act of war or other catastrophic event may significantly limit our or our customers' ability to conduct business as normal, including our ability to communicate and transact with customers, suppliers, distributors and resellers, which may negatively affect our revenues and operating results. Additionally, a natural disaster or catastrophic event could cause us or our customers to suspend all or a portion of operations for a significant period of time, result in a permanent loss of resources, and require the relocation of personnel and material to alternate facilities that may not be available or adequate. Such an event could also cause an indirect economic impact on our customers, which could impact our customers' purchasing decisions and reduce demand for our products and services. A prolonged disruption of our business could also damage our reputation, particularly among our global news organization customers who are likely to require our solutions and support during such time. Any of these factors could cause a material adverse impact on our financial condition and operating results.

Risks Related to Our Liquidity and Financial Performance

A significant decrease in our liquidity could negatively affect our business.

Maintaining adequate liquidity is important to our business operations. We meet our liquidity needs primarily through cash generated by operations, which we have supplemented from time to time with borrowings under our credit facilities with Wells Fargo Capital Finance LLC, or Wells Fargo. Significant fluctuations in our cash balances could harm our ability to meet our immediate liquidity needs, impair our capacity to react to sudden or unexpected contractions or growth in our business, reduce our ability to withstand a sustained period of economic crisis, and impair our ability to compete with competitors with greater financial resources. In addition, fluctuations in our cash balances could cause us to draw on our credit facilities and therefore reduce available funds under the facilities, and could cause us to violate the liquidity covenant under our credit agreement (see "Management's Discussion and Analysis of Financial Condition and Results of Operation - Liquidity and Capital Resources" in Item 7 of this Form 10-K). Furthermore, the credit agreement contains limitations on the amounts we may borrow at any time. If we are unable to generate sufficient cash flow or borrow sufficient funds under the credit agreement, it may be difficult for us to raise capital, or to do so on favorable terms, through other sources, such as by issuing equity or debt securities, as a result of our recent restatement, the decline and continued volatility of our stock price and the high cost of capital.

As a result of the restatement, we have deferred a significant portion of revenues from customer transactions occurring prior to 2011 to subsequent periods. The deferred revenues resulted in us reporting net income for the fiscal years 2011, 2012 and 2013. However, as deferred revenues from periods prior to 2011 are amortized, there are no assurances that we will be able to report net income in future periods.

As a result of the restatement of our financial statements, we have deferred a significant portion of revenues from customer transactions occurring prior to 2011 to subsequent periods. The deferred revenue resulted in us reporting net income in each of the past three fiscal years of approximately $21 million in 2013, $93 million in 2012, and $226 million in 2011 (Restated) and also adversely affected our stockholders' equity and working capital for those periods. As this deferred revenue is amortized, there are no assurances that we will be able to report net income in future periods. Our financial results and the impact of the deferred revenue are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Form 10-K. We cannot be certain when, or if, our operations will be profitable in future periods.

Restrictions in our credit agreement may limit our activities.

The credit agreement for our revolving credit facilities contains restrictive covenants that limit our ability to engage in activities that could otherwise benefit us, including limitations on our ability to make investments, incur additional indebtedness, issue equity and create liens as well as, for the year ending December 31, 2014, limitations on our ability to make capital expenditures. We are also required to meet a specified liquidity-based financial covenant under the terms of the credit agreement as well as, for the year ending December 31, 2014, covenants tied to the achievement of certain EBITDA goals. Failure to comply with any of these restrictions or covenants may result in an event of default under the credit agreement, which could permit acceleration of any outstanding debt we may have in the future and require us to repay the debt before its scheduled due date. If an event of default were to occur, we might not have sufficient funds available to make the payments required. If we are unable to repay amounts owed, our lenders may be entitled to foreclose on and sell substantially all of our assets, which we have used to secure our borrowings under the credit agreement. In addition, our borrowings under the facility are secured by first priority liens on substantially all of our U.S. assets.

Our revenues and operating results are difficult to predict and may fluctuate from period to period.

Our results of operations have been and may continue to be subject to significant quarterly variation. Our results through 2016 will, in particular, be affected by the amortization of deferred revenues relating to periods prior to 2011. Our revenues and operating results for any particular quarter may also vary due to a number of factors, including, but not limited to, those enumerated under the section "Cautionary Note on Forward-Looking Statements," appearing elsewhere in this Form 10-K and:

- the timing of large or enterprise-wide sales and our ability to recognize revenues from such sales;
- demand planning and logistics;
- reliance on third-party reseller and distribution channels;
- changes in operating expenses;
- price protections and provisions for inventory obsolescence extended to resellers and distributors;
- seasonal factors, such as higher consumer demand at year-end; and
- complex accounting rules for revenue recognition.

The occurrence and interaction of these variables may cause our revenues and operating results to fluctuate from period to period. As a result, period-to-period comparisons of our revenues and operating results may not provide a good indication of our future performance.

Our revenue backlog estimates are based on certain assumptions and are subject to unexpected adjustments and cancellations and backlog orders may not be timely converted to revenues in any particular fiscal period, if at all, or be indicative of our actual operating results for any future period.

Our revenue backlog, as we define it, consists of firm orders received and includes both (i) orders where the customer has paid in advance of our performance obligations being fulfilled, which are reflected as deferred revenues on our balance sheet, and (ii) orders for future product deliveries or services that have not yet been invoiced by us. The expected timing of the future recognition of revenue backlog as revenue is based on our current estimates and could change based on a number of factors, including (i) the timing of delivery of products and services, (ii) customer cancellations or change orders, or (iii) changes in the estimated period of time Implied Maintenance Release PCS is provided to customers. To the extent that our customers cancel their orders with us or reduce their requirements during a particular period for any reason, we will not realize revenue or profit from the associated revenue backlog. Even where a project proceeds as scheduled, it is possible that the customer may default and fail to pay amounts owed to us. Material delays, payment defaults or cancellations could reduce the amount of revenue backlog currently reported, and consequently, could inhibit the conversion of that backlog into revenues. Furthermore, orders included in our revenue

backlog may not be profitable. We may experience variances in the realization of our revenue backlog because of project delays or cancellations resulting from external market factors and economic factors beyond our control. As a result, even if we realize all of the revenue from the projects in our revenue backlog, if our expenses associated with these projects are higher than expected, our results of operations and financial condition would be adversely affected.

Fluctuations in foreign exchange rates may result in short-term currency exchange losses and could adversely affect our revenues from foreign markets and our manufacturing costs in the long term.

Our international sales are, for the most part, transacted through foreign subsidiaries and generally in the currency of the end-user customers. Consequently, we are exposed to short-term currency exchange risks that may adversely affect our revenues, operating results and cash flows. The majority of our international sales are transacted in euros. To hedge against the dollar/euro exchange exposure of the resulting forecasted receivables, cash balances and revenues, we may enter into foreign currency contracts. The success of our hedging programs depends on the accuracy of our forecasts of transaction activity in euros. To the extent that these forecasts are over- or understated during periods of currency volatility, we may experience currency gains or losses. Our hedging activities may only offset a portion of the adverse financial impact resulting from unfavorable movement in dollar/euro exchange rates, which could adversely affect our financial position or results of operations.

Furthermore, the significance to our business of sales in Europe subjects us to risks associated with long-term changes in the dollar/euro exchange rate. A sustained strengthening of the U.S. dollar against the euro would decrease our expected future U.S. dollar revenues from European sales and could have a significant adverse effect on our overall profit margins. During the past few years, economic instability in Europe, including concern over sovereign debt in Greece, Italy, Ireland and certain other European Union countries, caused significant fluctuations in the value of the euro relative to those of other currencies, including the U.S. dollar. Continuing uncertainty regarding economic conditions, including the solvency of these countries and the stability of the Eurozone, could lead to significant long-term economic weakness and reduced economic growth in Europe, the occurrence of which, or the potential occurrence of which, could lead to a sustained strengthening of the U.S. dollar against the euro, adversely affecting the profitability of our European operations.

In addition, we source and manufacture many of our products in China and our costs may increase should the renminbi not remain stable with the U.S. dollar. Although the renminbi is pegged against a basket of currencies determined by the People’s Bank of China, the renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the long term. In addition, if China were to permit the renminbi to float to a free market rate of exchange, it is widely anticipated that the renminbi would appreciate significantly in value against U.S. dollar. An increase in the value of the renminbi against the U.S. dollar would have the effect of increasing the labor and production costs of our Chinese manufacturers in U.S. dollar terms, which may result in their passing such costs to us in the form of increased pricing, which would adversely affect our profit margins if we could not pass those price increases along to our customers.

Future debt obligations may adversely affect our cash flow and restrict our investment opportunities.

In October 2010, we entered into four-year secured revolving credit facilities in the aggregate principal amount of up to $60 million. On August 29, 2014, we extended the original maturity date of our revolving credit facilities from October 1, 2014 to October 1, 2015. The amount we are actually entitled to borrow at any time is limited by a formula in the agreement and may be less than $60 million. Any indebtedness we incur under the credit facilities could have negative consequences, including, increasing our vulnerability to adverse economic and industry conditions; limiting our ability to obtain additional financing; limiting our ability to complete a merger or an acquisition; and limiting our flexibility in planning for, or reacting to, changes in our business.

If we are unable to satisfy our obligations under our credit agreement, our liquidity and ability to operate our business could be adversely affected.

Our ability to satisfy our obligations under our credit agreement will depend on our future operating performance and on economic, financial, competitive and other factors beyond our control. Our business may not generate sufficient

cash flows to meet these obligations or to successfully execute our business strategy. Similarly, in connection with the August 2014 amendment to our credit facilities, we agreed to meet certain timing obligations with respect to certain of our periodic filings with the SEC for 2014. If we are unable to meet these obligations or other other obligations under the credit facilities, including our debt service obligations, we may be forced to reduce or delay capital expenditures or research and development expenditures, seek additional financing or equity capital, restructure or refinance our debt, or sell assets and our business could be adversely affected.

Economic weakness and uncertainty could adversely affect our revenues, gross margins and expenses.

Our business is impacted by global economic conditions, which have been in recent years and continue to be volatile. Specifically, our revenues and gross margins depend significantly on global economic conditions and the demand for our products and services in the markets in which we compete. Economic weakness and uncertainty have resulted, and may result in the future, in decreased revenue, gross margin, earnings or growth rates and difficulty managing inventory levels. Sustained uncertainty about global economic conditions may adversely affect demand for our products and services and could cause demand to differ materially from our expectations as customers curtail or delay spending on our products and services. Economic weakness and uncertainty also make it more difficult for us to make accurate forecasts of revenues, gross margins and expenses.

The inability of our customers to obtain credit in the future may impair their ability to make timely payments to us. Tightening of credit by financial institutions could also lead customers to postpone spending or to cancel, decrease or delay their existing or future orders with us. Customer insolvencies could negatively impact our revenues and our ability to collect receivables. Financial difficulties experienced by our suppliers or distributors could result in product delays, increased accounts receivable defaults and inventory challenges. In the event we are impacted by global economic weakness, we may record additional charges relating to restructuring costs or the impairment of assets and our business and results of operations could be materially and adversely affected.

Risks Related to Our Stock

The market for our common stock may be illiquid.

Trading in stock quoted on over the counter trading systems such as OTC Pink Tier, where our common stock currently trades, is often thin and characterized by wide fluctuations in trading prices, due to many factors that may have little to do with our operations or business prospects. This volatility could depress the market price of our common stock for reasons unrelated to operating performance. Moreover, the over the counter trading systems do not benefit from the same type of market-maker trading systems utilized by stock exchanges such as the NYSE, AMEX and NASDAQ in which trading of a security is enhanced by to the presence of market-maker(s) who are dedicated to the trading of a particular listed company's shares. Rather, on over the counter markets, there is no assurance that a bid/ask will be trading for an over the counter listed issue at any particular point in time. As a result, trading of securities on the over the counter systems is often more sporadic than the trading of securities listed on the NYSE, AMEX, NASDAQ or similar large stock exchanges or stock markets. Accordingly, stockholders may have difficulty selling their shares at any particular point in time. Even if we are successful in relisting our common stock on a stock exchange, the market for our common stock may continue to be volatile. Please see “Risk Factors - The market price of our common stock has been and may continue to be volatile.”

The market price of our common stock has been and may continue to be volatile.

As a result of the delay in filing our periodic reports with the SEC, our common stock was suspended from trading effective February 25, 2014 and formally de-listed effective May 2, 2014. Following the suspension from trading on NASDAQ, our stock has been trading on OTC Markets - OTC Pink Tier with limited information. Prior to and following the suspension of trading from NASDAQ, the market price of our common stock has experienced volatility in the past and may continue to fluctuate substantially in the future in response to various factors, some of which are beyond our control. These factors include, but are not limited to:

- period-to-period variations in our revenues or operating results;
- our failure to accurately forecast revenues or operating results;
- our ability to produce accurate and timely financial statements;
- whether our results meet analysts’ expectations;
- market reaction to significant corporate initiatives or announcements;
- our ability to innovate;

- our relative competitive position within our markets;
- shifts in markets or demand for our solutions;
- changes in our relationships with suppliers, resellers, distributors or customers;
- our commencement of, or involvement in, litigation;
- short sales, hedging or other derivative transactions involving shares of our common stock; and
- shifts in financial markets.

Additionally, broader financial market and global economic trends may affect the market price of our common stock, regardless of our operating performance.

Provisions in our charter, bylaws and stockholder rights plan may have the effect of discouraging advantageous offers for our business or common stock and limit the price that investors might be willing to pay in the future for shares of our common stock.

Our charter, bylaws, and the provisions of the Delaware General Corporation Law include provisions that may have the effect of discouraging or preventing a change of control. In addition, we have a stockholder rights plan that may have the effect of discouraging or preventing a change of control. These provisions could limit the price that our stockholders might receive in the future for shares of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease approximately 173,000 square feet in two facilities in Burlington, Massachusetts for our principal corporate and administrative offices, as well as for significant R&D activities. The leases for these facilities expire in May 2020. We also lease approximately 127,000 square feet of office space in Daly City, California, primarily for R&D and sales and marketing activities, and 106,000 square feet in Mountain View, California, primarily for R&D, product management and manufacturing activities. The lease for the Daly City facility expires in September 2014, and we do not intend to renew this lease. The operations currently housed in this facility are being relocated to a smaller facility.

We lease approximately 29,000 square feet of office space in Iver Heath, United Kingdom for our European headquarters, which includes administrative, sales and support functions, and 41,000 square feet in Dublin, Ireland for the final assembly and distribution of our products in Europe. We also lease approximately 8,000 square feet in Singapore for our Asian headquarters.

We also lease office space for sales operations and research and development in several other domestic and international locations.

ITEM 3. LEGAL PROCEEDINGS

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

In June 2013, a purported stockholder of the Company filed a derivative complaint against us as nominal defendant and certain of our current and former directors and officers in the U.S. District Court for the District of Massachusetts. The complaints alleged various violations of state law, including breaches of fiduciary duties, waste of corporate assets and unjust enrichment. The derivative complaint sought, inter alia, a monetary judgment, equitable and/or injunctive relief, restitution, disgorgement and a variety of purported corporate governance reforms. On October 30, 2013, the complaint was dismissed without prejudice. On November 26, 2013, our Board received a letter from the plaintiff in the dismissed derivative suit, demanding that our Board investigate, address and commence proceedings against certain of our directors, officers, employees and agents based on conduct identified in the dismissed complaint. In December 2013, our Board created a committee to conduct an investigation into the allegations in the demand letter.

In April and May 2013, we 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 our disclosures regarding our accounting review and revenue transactions. We have produced documents responsive to such requests and have provided regular updates to the authorities on our accounting evaluation. We intend to continue to cooperate fully with the authorities. We cannot predict or determine the timing or outcome of these inquiries, the ultimate cost of responding to the inquiries or the impact, if any, of the inquiries on our financial position, results of operations or cash flows. However, although there can be no assurance, we believe that, based on information currently available, the outcome of these inquiries will not have a material adverse impact on our overall operations, financial condition or liquidity.

Our industry is characterized by the existence of a large number of patents and frequent claims and litigation regarding patent and other intellectual property rights. In addition to the legal proceedings described above, we are involved in legal proceedings from time to time arising from the normal course of business activities, including claims of alleged infringement of intellectual property rights and contractual, commercial, employee relations, product or service performance, or other matters. We do not believe these matters will have a material adverse effect on our financial position or results of operations. However, the outcome of legal proceedings and claims brought against us is subject to significant uncertainty. Therefore, our financial position or results of operations may be negatively affected by the unfavorable resolution of one or more of these proceedings for the period in which a matter is resolved. See Part I, Item 1A, “Risk Factors.” Our results could be materially adversely affected if we are accused of, or found to be, infringing third parties’ intellectual property rights.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

As a result of the delay in filing our periodic reports with the SEC, we were unable to comply with the listing standards of NASDAQ and our common stock was suspended from trading effective February 25, 2014 and formally de-listed effective May 2, 2014. Following the suspension of trading, our common stock has been traded on the OTC Pink Tier under the symbol AVID. The table below shows the high and low sales prices of our common stock for each calendar quarter of the fiscal years ended December 31, 2013 and 2012.

	2013		2012	
	High	Low	High	Low
First Quarter	$7.99	$6.27	$12.01	$8.61
Second Quarter	$7.01	$5.88	$11.03	$6.68
Third Quarter	$6.30	$5.22	$9.95	$7.00
Fourth Quarter	$8.89	$6.16	$9.78	$5.87

On September 5, 2014, the last reported bid price of our common stock on the OTC Pink Tier was $8.50 per share. The approximate number of holders of record of our common stock at September 5, 2014 was 325. This number does not include stockholders for whom shares were held in a "nominee" or "street" name.

We have never declared or paid cash dividends on our capital stock, and we do not anticipate paying any cash dividends in the foreseeable future. Our credit agreement with Wells Fargo prohibits us from declaring or paying any dividends in cash on our capital stock.

Stock Performance Graph

The following graph compares the cumulative stockholder return on our common stock during the period from December 31, 2008 through December 31, 2013 with the cumulative return during the period for:

- the NASDAQ Composite Index (all companies traded on NASDAQ Capital, Global or Global Select Markets),
- the Old Avid Peer Group Index (see details following the graph), and
- the New Avid Peer Group Index (see details following the graph).

This comparison assumes the investment of $100 on December 31, 2008 in our common stock, the NASDAQ Market Index, the Old Avid Peer Group Index and the new Avid Peer Group Index, and assumes that dividends, if any, were reinvested.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN
Among Avid Technology, Inc., the NASDAQ Composite Index,
the Old Avid Peer Group and the New Avid Peer Group
Prior to 2010, Avid compared its common stock returns to the NASDAQ Index and the NASDAQ Computer, Data Processing Index. Because our products and services are diverse, we do not believe any single published industry index is appropriate for comparing stockholder return. Therefore, starting in 2010, we began comparing our common stock returns to a peer group index, which was composed of NASDAQ-traded companies selected by Avid to best represent its peers based on various criteria, including industry classification, number of employees and market capitalization.

The composition of the Avid Peer Group Index is dictated by the peer group selected by the compensation committee of Avid's board of directors for its reference in setting executive compensation. The compensation committee seeks generally to include companies with similar product and service offerings to those of Avid while also achieving a balance of smaller and larger sized peer companies in terms of market capitalizations and revenue.

The Avid Peer Group Index for 2012 (the "Old Avid Peer Group") was composed of: Autodesk, Inc., Cadence Design Systems, Inc., Dolby Laboratories, Inc., Harmonic Inc., Imation Corp., Mentor Graphics Corporation, National Instruments Corporation, Novell, Inc., Parametric Technology Corporation, Quantum Corporation, RealD Inc., RealNetworks, Inc., SeaChange International Inc., Synaptics, Inc., THQ Inc. and Zoran Corporation. For purposes of the Avid Peer Group Index for 2013 (the "New Avid Peer Group"), Autodesk, Inc., Cadence Design Systems, Inc., Novell, Inc., Parametric Technology Corporation, SeaChange International Inc., THQ Inc. and Zoran Corporation were removed from the Avid Peer Group and Pegasystems Inc., Progress Software Corporation, QLogic Corporation, Rovi Corporation, Synaptics, Inc., and Verint Systems Inc. were added to the Avid Peer Group to conform to the peer group selected by our compensation committee. As a result, the New Avid Peer Group was composed of: Dolby Laboratories, Inc., Harmonic Inc., Imation Corp., Mentor Graphics Corporation, National Instruments Corporation, Pegasystems Inc., Progress Software Corporation, QLogic Corporation, Quantum Corporation, RealD Inc., RealNetworks, Inc., Rovi Corporation, Synaptics, Inc., and Verint Systems Inc.

Both the New Avid Peer Group Index and the Old Avid Peer Group Index are weighted based on market capitalization. For purposes of the comparison above, the market data for THQ Inc. (delisting), Novell, Inc. (acquisition) and Zoran Corporation (merger) have been excluded from the Old Avid Peer Index Group reporting as the data is not available for the entire five-year period.

ITEM 6. SELECTED FINANCIAL DATA

The selected condensed consolidated financial data below should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8, "Financial Statements and Supplementary Financial Information," included elsewhere in this Form 10-K. The selected condensed consolidated financial data as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011 (Restated) has been derived from our audited consolidated financial statements. The selected condensed consolidated financial data as of December 31, 2011 (Restated), 2010 (Restated) and 2009 (Restated) and for the years ended December 31, 2010 (Restated) and 2009 (Restated) has been derived from our unaudited consolidated financial statements, which were prepared on the same basis as our audited financial statements and reflect adjustments to our previously filed consolidated financial statements. See Note B to our Consolidated Financial Statements in Item 8 for information regarding our restatement of prior period financial results. See Note A to our Consolidated Financial Statements in Item 8 for information regarding changes to our revenue recognition policies and divestitures that may affect the comparability of the selected condensed consolidated financial data presented.

CONSOLIDATED STATEMENTS OF OPERATIONS DATA:
(in thousands, except per share data)

	For the Year Ended December 31,				
	2013	2012	2011 (Restated)	2010 (Restated)	2009 (Restated)
Net revenues (1)	$563,412	$635,703	$766,885	$403,518	$506,478
Cost of revenues	223,909	249,008	261,718	264,860	245,975
Gross profit	339,503	386,695	505,167	138,658	260,503
Operating expenses:					
Research and development	95,249	98,879	111,129	113,682	114,294
Marketing and selling	133,890	153,481	163,204	161,963	158,468
General and administrative	77,578	52,066	50,732	56,479	60,318
Amortization of intangible assets	2,648	4,254	8,528	9,743	10,511
Restructuring costs, net	5,370	24,838	6,534	20,167	28,608
Total operating expenses	314,735	333,518	340,127	362,034	372,199
Operating income (loss) from continuing operations	24,768	53,177	165,040	(223,376)	(111,696)
Other expense, net	(676)	(2,041)	(1,945)	(513)	(122)
Income (loss) from continuing operations before income taxes	24,092	51,136	163,095	(223,889)	(111,818)
Provision for income taxes, net	2,939	4,049	635	1,796	256
Income (loss) from continuing operations, net of tax (1)	21,153	47,087	162,460	(225,685)	(112,074)
Discontinued operations: (2)					
Gain on divestiture of consumer business	—	37,972	—	—	—
Income from divested operations	—	7,832	63,907	38,150	62,853
Income from discontinued operations	—	45,804	63,907	38,150	62,853
Net income (loss)	$21,153	$92,891	$226,367	$(187,535)	$(49,221)
Income (loss) per share - basic:					
Income (loss) per share from continuing operations, net of tax – basic	$0.54	$1.21	$4.23	(5.96)	(3.01)
Income per share from discontinued operations – basic	—	1.18	1.66	1.01	1.69
Net income (loss) per common share – basic	$0.54	$2.39	$5.89	$(4.95)	$(1.32)
Income (loss) per share - diluted:					
Income (loss) per share from continuing operations, net of tax – diluted	$0.54	$1.21	$4.22	(5.96)	(3.01)

Income per share from discontinued operations – diluted	—	1.18	1.65	1.01	1.69
Net income (loss) per common share – diluted	$0.54	$2.39	$5.87	$(4.95)	$(1.32)
Weighted-average common shares outstanding – basic	39,044	38,804	38,435	37,895	37,293
Weighted-average common shares outstanding (net income) – diluted	39,070	38,836	38,534	37,895	37,293

(1) Our revenues and operating results for the years ended December 31, 2013 and 2012 and our restated revenues and operating results for the year ended December 31, 2011 have been affected by the deferral of revenues from customer transactions occurring prior to 2011. On January 1, 2011, we adopted ASU No. 2009-14. Substantially all revenue arrangements prior to January 1, 2011 were generally recognized on a ratable basis over the service period of Implied Maintenance Release PCS. Subsequent to January 1, 2011, product revenues are generally recognized upon delivery and

Implied Maintenance PCS and other service and support elements are recognized as services are rendered. See Item 7, “Management’s Discussion and Analysis - ‘Restatement of Financial Statements’ and ‘Executive Overview’” and our policy on “Revenue Recognition” in Note A to our Consolidated Financial Statements in Item 8 of this Form 10-K for a further discussion of the effects of the changes to our revenue recognition policies on our financial results.

(2) On July 2, 2012, we exited our consumer business through a sale of the assets of that business in two separate transactions. As described further in Note I to our Consolidated Financial Statements in Item 8, the disposition of our consumer business qualified for presentation as discontinued operations. The accompanying financial statements have been reclassified for all periods presented to report the consumer business as a discontinued operation.

CONSOLIDATED BALANCE SHEET DATA:
(in thousands)

	As of December 31,				
	2013	2012	2011 (Restated)	2010 (Restated)	2009 (Restated)
Cash, cash equivalents and marketable securities	$48,203	$70,390	$32,855	$42,782	$108,877
Working capital deficit	(133,009)	(95,997)	(227,544)	(311,649)	(201,793)
Total assets (1)	235,142	294,361	340,590	784,643	772,248
Deferred revenues (current and long-term amounts)	466,832	558,485	697,124	937,624	793,640
Long-term liabilities	270,580	346,871	346,862	520,709	433,183
Total stockholders’ deficit (1)	(359,335)	(385,592)	(490,874)	(310,335)	(148,702)

(1) Effective January 1, 2011, the Company adopted ASU No. 2010-28, which required the Company to evaluate goodwill for impairment when a reporting unit has negative carrying value, and recorded an impairment totaling $419.4 million. For a further discussion of the adoption of ASU No. 2010-28, see Note B to our Consolidated Financial Statements in Item 8 of this Form 10-K.

29

ITEM 7. 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 and in Note B to our Consolidated Financial Statements in Item 8 of this Form 10-K, we have restated our consolidated financial statements for the year ended December 31, 2011. The restatement also affects periods prior to the year ended December 31, 2011, and the cumulative effects of the restatement have been reflected as prior period adjustments to the 2011 opening balance of accumulated deficit in our audited consolidated financial statements and in the relevant periods presented in Item 6, "Selected Financial Data."

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" in Note A to our Consolidated Financial Statements in Item 8 of this Form 10-K, 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 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 goodwill, stock-based compensation and income taxes, which have also been restated in the restated consolidated financial statements.

Goodwill

As a result of the change in the timing of revenue recognition described above and the resulting increase in deferred revenues, the carrying values of the reporting units used in our original goodwill impairment tests were incorrect for each historical period impacted by the restatement of revenue, including those periods in which impairment charges totaling $172.4 million had been recorded. The decrease in carrying value of the reporting units arising from the deferred revenue resulted in negative carrying value and changes to the original step one conclusions that further

considerations of goodwill impairment were required under step two, and, as such, no impairment should have been recognized in the periods prior to January 1, 2011. As a result, the carrying value of goodwill was restated to $419.4 million at December 31, 2010. On January 1, 2011, we adopted ASU No. 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts, or ASU No. 2010-28. ASU No. 2010-28 requires companies with negative carrying value of a reporting unit to perform step two of the impairment test when it is more likely than not that a goodwill impairment exists. Upon adoption of ASU No. 2010-28, we recorded a full impairment of goodwill through a cumulative-effect adjustment to accumulated deficit. The decline in the fair value of goodwill that caused the impairment was the result of declines in actual and expected cash flows that occurred over a several-year period prior to December 31, 2010.

The following table presents the adjustments to goodwill for the year ended December 31, 2011 (Restated) (in thousands):

Goodwill balance at December 31, 2010, as previously reported	$246,997
Effect of restatement	172,371
Goodwill balance at December 31, 2010, as restated	419,368
Cumulative-effect adjustment due to the adoption of ASU No. 2010-28	(419,368)
Goodwill balance at December 31, 2011, as restated	$—

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 also identified errors in a restructuring charge recorded in the year ended December 31, 2009. We originally assumed that a vacated facility could be sublet, reducing the restructuring expense by $2.2 million at that time. Subsequently, management determined that contractual provisions severely limited us from executing a sublease, which resulted in no possible sublease income at the time of lease abandonment. The cumulative effect of this error and other restructuring-related adjustments totaling $1.5 million at December 31, 2010 was reflected as an adjustment to the 2011 opening balance of accumulated deficit in our Consolidated Financial Statements in Item 8 of this Form 10-K..

Income Taxes

We identified and corrected certain errors related to the accounting for an intercompany loan made between two of our international subsidiaries that occurred during the year ended December 31, 2007. We determined that we should have accrued withholding taxes of $3.8 million, and as a result we had understated the provision for income taxes in 2007 and income taxes payable reported on our balance sheets for each period subsequent to the transaction. Additionally, as the tax was not withheld and paid to the taxing authority, we are subject to interest and penalties on the unpaid balance. The cumulative effect of this error and other adjustments totaling $6.2 million at December 31, 2010 was reflected as an adjustment to the 2011 opening balance of accumulated deficit in our Consolidated Financial Statements in Item 8 of this Form 10-K. We also adjusted income taxes as necessary to reflect the impact of the changes in the timing of revenue recognition described above. We also identified several errors in the compilation of our deferred tax assets and liabilities that are discussed in the notes to the financial statements. Due to the valuation allowance we had recorded against gross deferred tax assets, the adjustments had no net effect on our financial results; however, the corrected balances are reflected in the notes to our consolidated financial statements.

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 adjustments of $5.1 million to inventory and adjustments to accrued liabilities, as well as reclassifications of operating expenses to cost of revenues totaling $9.5 million.

Cumulative Effect of Prior Period Adjustments

The following table presents the cumulative effect of the prior period adjustments to stockholders' deficit at December 31, 2010 (in thousands):

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)
Balances at December 31, 2010, as previously reported	$ 423	$ 1,005,198	$ (495,254)	$ (91,025)	$ 7,268	$ 426,610
Revenue recognition adjustments	—	—	(897,835)	—	957	(896,878)
Goodwill adjustments	—	—	172,371	—	—	172,371
Restructuring adjustments	—	—	(1,452)	—	—	(1,452)
Income tax adjustments	—	—	(6,280)	—	683	(5,597)
Stock-based compensation adjustments	—	12,204	(12,204)	—	—	—
Other adjustments	—	—	(5,693)	—	303	(5,390)
Balances at December 31, 2010, as restated	$ 423	$ 1,017,402	$ (1,246,347)	$ (91,025)	$ 9,211	$ (310,336)

Discontinued Operations

On July 2, 2012, we exited our consumer business through a sale of the assets of that business in two separate transactions. As described further in Note I to our Consolidated Financial Statements in Item 8 of this Form 10-K, the disposition of the consumer business qualified for presentation as a discontinued operation. The accompanying financial statements have been retrospectively adjusted for all periods presented to report the consumer business as a discontinued operation.

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 by Fiserv, Inc. Subsequently, on April 22, 2013, we announced that John W. Frederick had assumed the role of our Executive Vice President, Chief Financial Officer and Chief Administrative Officer. Mr. Frederick had previously joined us as Chief of Staff on February 11, 2013, working on strategic projects as requested by our President and Chief Executive Officer. Prior to that, Mr. Frederick was Corporate Executive Vice President and Chief Financial Officer of Open Solutions, Inc. Also in 2013, we appointed Jeff Rosica, formerly head of Sales and Marketing at Grass Valley, as Senior Vice President of Worldwide Field Operations.

Restatement and Related Matters

As discussed above in “Restatement of Financial Statements,” the Explanatory Note and Note B to our Consolidated Financial Statements in Item 8 of this Form 10-K, we have completed the accounting evaluation commenced in early 2013 and have restated our consolidated financial statements as of December 31, 2011 and for the year then ended. As a result of this accounting evaluation and restatement and our subsequent failure to stay current in our SEC reporting obligations, our common stock was suspended from trading on NASDAQ on February 25, 2014 and subsequently delisted. We intend to seek relisting of our common stock on the NASDAQ Global Select Market in connection with becoming current with our SEC reporting obligations. In connection with our announcement of the accounting evaluation, we also became subject to litigation as discussed in Item 3 of Part I of this Form 10-K. We have also determined that we have material weaknesses in our internal control over financial reporting, as discussed in Item 9A of this Form 10-K.

Adoption of New Revenue Recognition Guidance

Prior to our adoption of ASU No. 2009-14, Certain Revenue Arrangements That Include Software Elements, an amendment to ASC Subtopic 985-605, or ASU No. 2009-14, we primarily recognized revenues using the revenue recognition criteria of Accounting Standards Codification, or ASC, Subtopic 985-605, Software-Revenue Recognition. As a result of our adoption of ASU No. 2009-14 on January 1, 2011, a majority of our 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 we had not been able to establish vendor-specific objective evidence, or 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, we determine a relative selling price for all elements of the arrangement through the use of best estimated selling price, or BESP, as VSOE and third party evidence, or TPE, are typically not available, resulting in revenue recognition of arrangement consideration attributable to product revenue upon delivery of the product, 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. As a result of the adoption of this standard, we recorded increased revenues and net income of approximately $300 million for the year ended December 31, 2011 (Restated) as compared with results that would have been recorded under the prior accounting standards. For transactions occurring after January 1, 2011, our revenue recognition policies have generally resulted in the recognition of approximately 70% of billings as revenue in the year of billing, and prior to January 1, 2011, the previously applied revenue recognition policies resulted in the recognition of approximately 30% of billings as

revenue in the year of billing. We expect this trend to continue in future periods.

2012 Divestiture of Consumer Business

On July 2, 2012, we sold, in two separate transactions, a group of consumer audio and video products and certain related intellectual property, or the Consumer Business, with a negative carrying value of $25.0 million for total consideration of $14.8 million, recording a gain of $38.0 million net of $1.9 million of costs incurred to sell the assets.

The divestiture of these consumer product lines was intended to:

- allow us to focus on the Broadcast and Media market and the Video and Audio Post and Professional market,

33

- reduce complexity from our operations to improve operational efficiencies, and
- allow us to change our cost structure, by moving away from lower growth, lower margin sectors to drive improved financial performance.

Net revenues from these divested product lines totaled approximately $155.9 million for 2011 (Restated) and $46.1 million for 2012. The gain on the divestiture of the Consumer Business and the related operating results have been classified as discontinued operations in our audited consolidated financial statements included in Item 8 of this Form 10-K.

Financial Summary

Revenues

Net revenues from continuing operations were $563.4 million, $635.7 million and $766.9 million, respectively, for 2013, 2012 and 2011 (Restated). These decreases in revenues from continuing operations were primarily the result of lower amortization of deferred revenues (that is, lower recognition of revenue backlog) attributable to transactions executed on or before December 31, 2010, which, due to the adoption of ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements, an amendment to ASC Topic 605, or ASU No. 2009-13, and ASU No. 2009-14 as described further in “Critical Accounting Polices and Estimates,” resulted in many of our product orders qualifying for upfront revenue recognition; whereas, prior to adoption the same orders required ratable recognition over periods of up to eight years. Revenue backlog associated with transactions executed prior to the adoption of ASU No. 2009-13 and ASU No. 2009-14 will continue to decline through 2016, before the balance is largely amortized, contributing less revenue each period. As a result of the change in accounting standards, even with consistent or increasing aggregate order values, we will experience significant declines in revenues, deferred revenues and revenue backlog in the coming years as revenue backlog associated with transactions occurring prior to January 1, 2011 decreases each quarter without being replaced by comparable revenue backlog from new transactions. After consideration of this change in accounting standards, there have been no other significant changes in our revenues.

Gross Margin Percentage

Our gross margin percentage from continuing operations decreased slightly to 60.3% in 2013, compared to 60.8% for 2012. As previously discussed, the revenues recognized from the amortization of deferred revenues attributable to transactions executed on or before December 31, 2010 will continue to decline until the deferred revenue balances are largely amortized in 2016. These revenues have 100% margins, because the timing of the recognition of the deferred costs did not change as a result of our restatement, and our gross margin percentages will be negatively impacted year over year as these revenues decline. Partially offsetting this decline resulting from deferred revenue amortization is a general improvement in our services and support delivery whereby revenue increased while costs declined.

Operating Expenses

Our total operating expenses from continuing operations for 2013 decreased to $314.7 million, from $333.5 million for 2012. This decrease was largely due to the level of our restructuring costs in 2012, which were significantly lower in 2013, and decreased marketing and selling expenses in 2013, partially offset by an increase in our general and administrative expenses. Expenses from the evaluation of, and subsequent financial restatement related to, our historical revenue recognition practices resulted in a $20.6 million increase in general and administrative expenses for 2013.

Liquidity

At December 31, 2013, our cash balance was $48.2 million, a decrease of $22.2 million from December 31, 2012, and we had no outstanding borrowings against our credit facilities. The decrease in our cash balance was largely the result of professional, legal and consulting fees related to the evaluation of, and subsequent financial restatement related to, our historical revenue recognition practices, as well as restructuring-related expenditures. At July 31, 2014, we had outstanding borrowings of $10.0 million under the Credit Agreement, and the remaining availability totaled approximately $15.6 million. On August 29, 2014, we entered into an amendment to our Credit Agreement, extending the maturity date from October 1, 2014 to October 1, 2015. For a further discussion of our liquidity and cash flows, please see “Liquidity and Capital Resources.”

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We regularly reevaluate our estimates and judgments, including those related to the following: revenue recognition and allowances for sales returns and exchanges; stock-based compensation; income tax assets and liabilities; and restructuring charges and accruals. We base our estimates and judgments on historical experience and various other factors we believe to be reasonable under the circumstances, the results of which form the basis for judgments about the carrying values of assets and liabilities and the amounts of revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates.

We believe the following critical accounting policies most significantly affect the portrayal of our financial condition and involve our most difficult and subjective estimates and judgments.

Revenue Recognition and Allowance for Sales Returns and Exchanges

General

We commence 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 we sell do not require significant production, modification or customization. Installation of our products is generally routine, consists of implementation and configuration and does not have to be performed by us.

At the time of a sales transaction, we make 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, we consider 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, we also assess 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, we consider the payment terms of the transaction, our collection experience in similar transactions without making concessions, and our 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 our normal payment terms, which are generally 30 days, but can be up to 90 days, after the invoice date, we evaluate whether we have sufficient history of successfully collecting past transactions with similar terms without offering concessions. If that collection history is sufficient, revenues are recognized, or revenue recognition commences, upon delivery of the products, assuming all other revenue recognition criteria are satisfied. If we were 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.

We often receive 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 we have concluded that two or more orders with the same customer are so closely related that they are, in effect, parts of a single arrangement, we account for those orders as a single arrangement for revenue recognition purposes. In other circumstances, when we have 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, we account for those orders as separate arrangements for revenue recognition purposes.

For many of our 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, or 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 (referred to by us as Implied Maintenance Release PCS).

We enter 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. In accordance with ASU No. 2009-13, for these multiple-element arrangements, we allocate revenue to each deliverable of the arrangement based on the relative selling prices of the deliverables. In such circumstances, we first determine the selling price of each deliverable based on (i) VSOE of fair value if that exists; (ii) third-party evidence of selling price, or TPE, when VSOE does not exist; or (iii) best estimate of the selling price, or 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. Our process for determining BESP for deliverables for which VSOE or TPE does not exist involves significant management judgment. In determining BESP, we consider 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 BESP for Implied Maintenance Release PCS, which we do not sell separately, we consider (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 our established pricing practices had the deliverable been offered separately, and (iv) the prices a customer would likely be willing to pay.

We estimate 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, we will modify the remaining estimated service period accordingly and recognize the then-remaining deferred revenue balance over the revised service period.

We have established VSOE of fair value for all professional services and training and for some of our support offerings. Our 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.

The following table sets forth our determination of the estimated range of BESP of Implied Maintenance Release PCS, stated as a percentage of the BESP of the underlying product being sold, and the estimated range of service periods of Implied Maintenance Release PCS by product group for all periods presented in the consolidated financial statements.

Product Group	BESP of Implied Maintenance Release PCS (as a % of Product BESP)	Estimated Service Period
Professional video creative tools	1% to 13%	18 to 72 months
Video storage and workflow solutions	1% to 2%	72 months
Media management solutions	1% to 3%	12 to 72 months

Consumer video-editing software	1% to 6%	12 to 36 months
Digital audio software and workstations solutions	1% to 8%	12 to 36 months
Control surfaces, consoles and live-sound systems	1% to 5%	12 to 96 months
Notation software	4% to 8%	12 to 46 months
Consumer audio products	2%	24 months

In accordance with ASU No. 2009-14, we exclude from the scope of software revenue recognition requirements our sales of tangible products that contain both software and non-software components that function together to deliver the essential functionality of the tangible products. We 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 our adoption of ASU No. 2009-14, we primarily recognized revenues using the revenue recognition criteria of Accounting Standards Codification, or ASC, Subtopic 985-605, Software-Revenue Recognition. As a result of our adoption of ASU No. 2009-14 on January 1, 2011, a majority of our 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 we 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, we determine a relative selling price for all elements of the arrangement through the use of BESP, 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. As a result of the adoption of these standards, we recorded increased revenues and net income of approximately $300 million for the year ended December 31, 2011 (Restated) as compared with results that would have been recorded under the prior accounting standards.

The timing of revenue recognition of customer arrangements follows a number of different accounting models determined by the characteristics of the arrangement, and that timing can vary significantly from the timing of related cash payments due from customers. One significant factor affecting the timing of revenue recognition is the determination of whether each deliverable in the arrangement is considered to be a software deliverable or a non-software deliverable, as defined under GAAP. For transactions occurring after January 1, 2011, our revenue recognition policies have generally resulted in the recognition of approximately 70% of billings as revenue in the year of billing, and prior to January 1, 2011, the previously applied revenue recognition policies resulted in the recognition of approximately 30% of billings as revenue in the year of billing. We expect this trend to continue in future periods.

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 our 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 twelve 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

We recognize 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 we do not have VSOE of the fair value of our software products, we

are permitted to account for our 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. We are unable to use the residual method to recognize revenues for most 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 our 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, we offer 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.

Other Revenue Recognition Policies

In a limited number of arrangements, the professional services and training to be delivered are considered essential to the functionality of our software products. If services sold in an arrangement are deemed to be essential to the functionality of the software products, the arrangement is accounted for using contract accounting. As we have concluded that we cannot reliably estimate our contract costs, we use the completed contract method of contract accounting. The completed contract method of accounting defers all revenue and costs until the date that the products have been delivered and professional services, exclusive of post-contract customer support, have been completed. Deferred costs related to fully deferred contracts are recorded as a component of inventories in the consolidated balance sheet, and generally all other costs of sales are recognized when revenue recognition commences.

We record a provision for estimated returns and other allowances as a reduction of revenues in the same period that related revenues are recorded. Use of management estimates is required in connection with establishing and maintaining a sales allowance for expected returns and other credits, including rebates and returns. In making these estimates, we analyze historical returns and credits and other relevant factors. While we believe we can make reliable estimates regarding these matters, these estimates are inherently subjective. The amount and timing of our revenues for any period may be affected if actual product returns prove to be materially different from our estimates.

We record as revenues all amounts billed to customers for shipping and handling costs and record the actual shipping costs as a component of cost of revenues. Reimbursements received from customers for out-of-pocket expenses are recorded as revenues, with related costs recorded as cost of revenues. We present revenues net of any taxes collected from customers and remitted to government authorities.

In the consolidated statements of operations, we classify revenues as product revenues or services revenues. For multiple element arrangements that include both product and service elements, including Implied Maintenance Release PCS, we evaluate available indicators of fair value and apply our judgment to reasonably classify the arrangement fee between product revenues and services revenues. The amount of multiple element arrangement fees classified as product and services revenues based on management estimates of fair value when VSOE of fair value for all elements of an arrangement does not exist could differ from amounts classified as product and service revenues if VSOE of fair value for all elements existed.

Stock-Based Compensation

We account for stock-based compensation at fair value. During 2012, we granted both stock options and restricted stock units as part of our key performer stock-based compensation program, and we granted both stock options and

restricted stock units to newly hired employees during 2012 and the first two months of 2013. In prior years, we also issued restricted stock, and we refer to restricted stock and restricted stock units collectively as restricted stock awards. The vesting of stock options and restricted stock awards may be based on time, performance, market conditions, or a combination of performance and market conditions. In the future, we may grant stock awards, options, or other equity-based instruments allowed by our stock-based compensation plans, or a combination thereof, as part of our overall compensation strategy.

The fair values of restricted stock and restricted stock unit awards with time-based vesting are based on the intrinsic values of the awards at the date of grant as these awards have a purchase price of $0.01 per share. We generally use the Black-Scholes option pricing model to estimate the fair value of stock option grants with time-based vesting. The Black-Scholes option pricing model

relies on a number of key assumptions to calculate estimated fair values. Our assumed dividend yield of zero is based on the fact that we have never paid cash dividends, we have no present intention to pay cash dividends and our current credit agreement precludes us from paying dividends. Our expected stock-price volatility assumption is based on recent (six-month trailing) implied volatility of the traded options. These calculations are performed on exchange-traded options of our common stock based on the implied volatility of long-term (9- to 39-month term) exchange-traded options. We believe that using a forward-looking market-driven volatility assumption will result in the best estimate of expected volatility. The assumed risk-free interest rate is the U.S. Treasury security rate with a term equal to the expected life of the option. The assumed expected life is based on company-specific historical experience, considering the exercise behavior of past grants and models the pattern of aggregate exercises.

We also issue stock option grants or restricted stock unit awards with vesting based on market conditions, which historically included Avid’s stock price; or performance conditions, generally our return on equity or operating margin; or a combination of performance or market conditions. The fair values and derived service periods for all grants that include vesting based on market conditions are estimated using the Monte Carlo valuation method. For stock option grants that include vesting based on performance conditions, the fair values are estimated using the Black-Scholes option pricing model. For restricted stock unit awards that include vesting based on performance conditions, the fair values are estimated based on the intrinsic values of the awards at the date of grant as these awards have a purchase price of $0.01 per share. For stock option grants and restricted stock unit awards with vesting based on a combination of performance or market conditions, compensation costs are recorded based on the higher estimated grant-date fair value for each vesting tranche and factored for the estimated probability of achieving the performance goals. For each stock option grant and restricted stock award with vesting based on a combination of performance or market conditions where vesting will occur if either condition is met, the related compensation costs are recognized over the shorter of the derived service period or implicit service period.

At December 31, 2013, most of the unvested awards that include performance conditions have vesting conditions that are based upon the achievement of a specified return on stockholders’ equity. At December 31, 2013, we believe it is probable that these awards will vest, and compensation expense is being recognized over the implied service period. At December 31, 2013, the weighted-average remaining implied service period of the awards with performance conditions was approximately 0.64 years.

If factors change and we employ different assumptions to estimate stock-based compensation expense in future periods, including changes in the probability of achieving performance conditions, or we decide to use a different valuation model, the stock-based compensation expense recognized in future periods may differ significantly from what we have recorded in the current period and could materially affect our operating income, net income and earnings per share. It may also result in a lack of comparability with other companies that use different models, methods and assumptions. See Notes A and M to our Consolidated Financial Statements in Item 8 for further information regarding stock-based compensation.

Income Tax Assets and Liabilities

We record deferred tax assets and liabilities based on the net tax effects of tax credits, operating loss carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes compared to the amounts used for income tax purposes. We regularly review our deferred tax assets for recoverability with consideration for such factors as historical losses, projected future taxable income and the expected timing of the reversals of existing temporary differences. A valuation allowance is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on the magnitude of our gross deferred tax assets, which totaled more that $400 million at December 31, 2013, and our level of historical U.S. losses, we have determined that the uncertainty regarding the realization of these assets is sufficient to warrant the need for a full valuation allowance against our U.S. deferred tax assets. We also determined that a valuation allowance is warranted

on a portion of our foreign deferred tax assets.

Our assessment of the valuation allowance on our U.S. and foreign deferred tax assets could change in the future based on our levels of pre-tax income and other tax-related adjustments. Reversal of the valuation allowance in whole or in part would result in a non-cash reduction in income tax expense during the period of reversal. To the extent some or all of our valuation allowance is reversed, future financial statements would reflect an increase in non-cash income tax expense until such time as our deferred tax assets are fully utilized.

The amount of income taxes we pay is subject to our interpretation of applicable tax laws in the jurisdictions in which we file. We have taken and will continue to take tax positions based on our interpretation of such tax laws. There can be no assurance that a taxing authority will not have a different interpretation of applicable law and assess us with additional taxes. Should we be assessed with additional taxes, it could have a negative impact on our results of operations or financial condition.

We account for uncertainty in income taxes recognized in our financial statements by applying a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon examination by the taxing authorities, based on the technical merits of the position. If the tax position is deemed more likely than not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. Our provision for income taxes includes the effects of any resulting tax
reserves, referred to as unrecognized tax benefits, that are considered appropriate as well as the related net interest and penalties. At December 31, 2013 and 2012, the amounts recorded for unrecognized tax benefits in our consolidated balance sheets totaled $24.7 million and $22.6 million, respectively, including interest and penalties. If these benefits had been recognized, $0.8 million and $0.9 million, respectively, would have resulted in a reduction of our income tax provision at December 31, 2013 and 2012.

Restructuring Charges and Accruals

We recognize facility-related restructuring charges upon exiting all or a portion of a leased facility and meeting cease-use and other requirements. The amount of restructuring charges is based on the fair value of the lease obligation for the abandoned space, which includes a sublease assumption that could be reasonably obtained.

Based on our policies for the calculation and payment of severance benefits, we account for employee-related restructuring charges as an ongoing benefit arrangement in accordance with ASC Topic 712, Compensation - Nonretirement Postemployment Benefits. Severance-related charges are accrued when it is determined that a liability has been incurred, which is when the expected severance payments are probable and can be reasonably estimated.

Restructuring charges require significant estimates and assumptions, including sub-lease income and severance period assumptions. Our estimates involve a number of risks and uncertainties, some of which are beyond our control, including future real estate market conditions and our ability to successfully enter into subleases or termination agreements with terms as favorable as those assumed when arriving at our estimates. We monitor these estimates and assumptions on at least a quarterly basis for changes in circumstances and any corresponding adjustments to the accrual are recorded in our statement of operations in the period when such changes are known.

RESULTS OF OPERATIONS

The following table sets forth certain items from our consolidated statements of operations as a percentage of net revenues from continuing operations for the periods indicated:

	Year Ended December 31,		
	2013	2012	2011 (Restated)
Net revenues:			
Product revenues	70.2 %	75.3 %	86.2 %
Services revenues	29.8 %	24.7 %	13.8 %
Total net revenues	100.0 %	100.0 %	100.0 %
Cost of revenues	39.7 %	39.2 %	34.1 %
Gross margin	60.3 %	60.8 %	65.9 %
Operating expenses:			
Research and development	16.9 %	15.6 %	14.5 %
Marketing and selling	23.8 %	24.1 %	21.3 %
General and administrative	13.8 %	8.2 %	6.6 %
Amortization of intangible assets	0.5 %	0.7 %	1.1 %
Restructuring costs, net	1.0 %	3.9 %	0.9 %
Total operating expenses	55.9 %	52.5 %	44.4 %
Operating income	4.4 %	8.3 %	21.5 %
Interest and other income (expense), net	(0.1)%	(0.3)%	(0.3)%
Income from continuing operations before income taxes	4.3 %	8.0 %	21.2 %
Provision for income taxes	0.5 %	0.6 %	0.1 %
Income from continuing operations, net of tax	3.8 %	7.4 %	21.1 %
Income from discontinued operations	— %	7.2 %	8.3 %
Net income	3.8 %	14.6 %	29.4 %

Net Revenues

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

Net Revenues from Continuing Operations for the Years Ended December 31, 2013 and 2012
(dollars in thousands)

	2013 Net Revenues	Change $	Change %	2012 Net Revenues
Video products and solutions net revenues	$243,173	$(33,736)	(12.2)%	$276,909
Audio products and solutions net revenues	152,358	(49,563)	(24.5)%	201,921
Products and solutions net revenues	395,531	(83,299)	(17.4)%	478,830
Services net revenues	167,881	11,008	7.0%	156,873
Total net revenues	$563,412	$(72,291)	(11.4)%	$635,703

Net Revenues from Continuing Operations for the Years Ended December 31, 2012 and 2011 (Restated)
(dollars in thousands)

	2012	Change		2011
	Net Revenues	$	%	Net Revenues (Restated)
Video products and solutions revenues	$276,909	$(21,724)	(7.3)%	$298,633
Audio products and solutions revenues	201,921	(160,166)	(44.2)%	362,087
Total products and solutions revenues	478,830	(181,890)	(27.5)%	660,720
Services revenues	156,873	50,708	47.8%	106,165
Total net revenues	$635,703	$(131,182)	(17.1)%	$766,885

The following table sets forth the percentage of our net revenues from continuing operations attributable to geographic regions for the periods indicated:

	Year Ended December 31,		
	2013	2012	2011 (Restated)
United States	39%	39%	41%
Other Americas	7%	7%	8%
Europe, Middle East and Africa	38%	39%	35%
Asia-Pacific	16%	15%	16%

Video Products and Solutions Revenues

2013 Compared to 2012

Video products and solutions revenues from continuing operations decreased $33.7 million, or 12.2%, for 2013, compared to 2012. In 2013, compared to 2012, revenues from our video creative tools, storage and workflow solutions, and media management solutions all decreased. The decrease in video revenues was primarily the result of lower amortization of deferred revenues (that is, lower recognition of revenue backlog) attributable to transactions executed on or before December 31, 2010, which, due to the adoption of ASU No. 2009-13 and ASU No. 2009-14 as described further in “Critical Accounting Polices and Estimates,” resulted in many of our product orders qualifying for upfront revenue recognition; whereas, prior to adoption the same orders required ratable recognition over periods of up to eight years. Revenue backlog associated with transactions executed prior to the adoption of ASU No. 2009-13 and ASU No. 2009-14 will continue to decline through 2016, before the balance is largely amortized, contributing less revenue each period.

As a percentage of revenues from continuing operations, all video product categories also decreased during 2013, compared to 2012.

2012 Compared to 2011 (Restated)

Video products and solutions revenues from continuing operations decreased $21.7 million, or 7.3%, for 2012, compared to 2011 (Restated). In 2012, compared to 2011 (Restated), revenues from our video creative tools and storage and workflow solutions decreased, while revenues from our media management solutions all increased. The overall decrease in video revenues was primarily the result of lower amortization of deferred revenues (that is, lower recognition of revenue backlog) attributable to transactions executed on or before December 31, 2010, which, due to the adoption of ASU No. 2009-13 and ASU No. 2009-14 as described further in “Critical Accounting Polices and Estimates,” resulted in many of our product orders qualifying for upfront revenue recognition; whereas, prior to adoption the same orders required ratable recognition over periods of up to eight years. Revenue backlog associated

with transactions executed prior to the adoption of ASU No. 2009-13 and ASU No. 2009-14 will continue to decline through 2016, before the balance is largely amortized, contributing less revenue each period.

As a percentage of revenues from continuing operations, storage and workflow solutions and media management solutions increased, while the percentage for video creative tools decreased.

Audio Products and Solutions Revenues

2013 Compared to 2012

Audio products and solutions revenues from continuing operations decreased $49.6 million, or 24.5%, for 2013, compared to 2012. In 2013, compared to 2012, revenues from our digital audio software and workstation solutions and control surfaces, consoles and live-sound systems decreased. The decrease in audio revenues was primarily the result of lower amortization of deferred revenues (that is, lower recognition of revenue backlog) attributable to transactions executed on or before December 31, 2010, which, due to the adoption of ASU No. 2009-13 and ASU No. 2009-14 as described further in "Critical Accounting Polices and Estimates," resulted in many of our product orders qualifying for upfront revenue recognition; whereas, prior to adoption the same orders required ratable recognition over periods of up to eight years. Revenue backlog associated with transactions executed prior to the adoption of ASU No. 2009-13 and ASU No. 2009-14 will continue to decline through 2016, before the balance is largely amortized, contributing less revenue each period. We continue to see a shift from hardware-based products to software-only products for the digital audio software and workstation solutions.

As a percentage of revenues from continuing operations, our digital audio software and workstation solutions and control surfaces, consoles and live-sound system categories both decreased during 2013, compared to 2012.

2012 Compared to 2011 (Restated)

Audio products and solutions revenues from continuing operations decreased $160.2 million, or 44.2%, for 2012, compared to 2011 (Restated). In 2012, compared to 2011 (Restated), revenues from our digital audio software and workstation solutions and control surfaces, consoles and live-sound systems decreased. The decrease in audio revenues was primarily the result of lower amortization of deferred revenues (that is, lower recognition of revenue backlog) attributable to transactions executed on or before December 31, 2010, which, due to the adoption of ASU No. 2009-13 and ASU No. 2009-14 as described further in "Critical Accounting Polices and Estimates," resulted in many of our product orders qualifying for upfront revenue recognition; whereas, prior to adoption the same orders required ratable recognition over periods of up to eight years. Revenue backlog associated with transactions executed prior to the adoption of ASU No. 2009-13 and ASU No. 2009-14 will continue to decline through 2016, before the balance is largely amortized, contributing less revenue each period.

As a percentage of revenues from continuing operations, our digital audio software and workstation solutions and control surfaces, consoles and live-sound system categories both decreased during 2012, compared to 2011 (Restated).

Services Revenues

2013 Compared to 2012

Services revenues are derived primarily from maintenance contracts, as well as professional services and training. The $11.0 million, or 7.0%, increase in services revenues from continuing operations for 2013, compared to 2012, was primarily the result of increased maintenance revenues, driven by maintenance contracts attached to new product sales. During 2013, we continued to include a one-year maintenance contract with certain product sales, which we began during 2011. While this has had a positive impact on 2012 and 2013 maintenance revenues, the effect on future maintenance revenues will depend on the level of renewal rates on these contracts.

2012 Compared to 2011 (Restated)

The $50.7 million, or 47.8%, increase in services revenues for 2012, compared to 2011 (Restated), was the result of increased maintenance revenues, driven by maintenance contracts attached to new product sales, and increased revenues from professional services. During 2011, we began to include a one-year maintenance contract with certain product sales, which had a positive effect on our 2011 (Restated) maintenance revenues and an even greater impact on our 2012 maintenance revenues.

Revenue Backlog

At December 31, 2013, we had revenue backlog of approximately $559 million, compared to $610 million at December 31, 2012. Revenue backlog, as we define it, consists of firm orders received and includes both (i) orders where the customer has paid in advance of our performance obligations being fulfilled, which are reflected as deferred revenues in our balance sheet and (ii) orders for future product deliveries or services that have not yet been invoiced by us. Revenue backlog associated with arrangement consideration paid in advance primarily consists of deferred revenue related to (i) the undelivered portion of annual support contracts, (ii) software arrangements for which VSOE of fair value of undelivered elements does not exist, (iii) Implied Maintenance Release PCS performance obligations, and (iv) in-process installations that are subject to substantive customer acceptance provisions. Revenue backlog associated with orders for future product deliveries and services where cash has not been received primarily consists of (i) product orders received but not yet shipped, (ii) professional services not yet rendered and (iii) future years of multi-year support agreements not yet billed.

A meaningful portion of our revenue backlog is attributable to deferred revenue related to transactions that occurred prior to our January 1, 2011 adoption of the accounting guidance related to multiple-element arrangements (ASU No. 2009-13) and the accounting guidance related to differentiating software and hardware in a combined product offering (ASU No. 2009-14). Prior to our adoption of ASU No. 2009-14, the majority of our products were subject to software revenue recognition guidance that required us to recognize revenue ratably for periods as long as eight years from product delivery because we did not have VSOE of fair value for the Implied Maintenance Release PCS deliverable included in most of our customer arrangements. Upon adoption of ASU No. 2009-14, most of our products are now excluded from the scope of software revenue recognition, resulting in recognition of arrangement consideration upon product shipments (based on management's best estimate of selling price) with only the arrangement consideration attributable to Implied Maintenance Release PCS being recognized ratably over an extended period of time. As a result of the change in accounting standards, even with consistent or increasing aggregate order values, we will experience significant declines in revenues, deferred revenues and revenue backlog in the coming years as revenue backlog associated with transactions occurring prior to January 1, 2011 decreases each quarter without being replaced by comparable revenue backlog from new transactions.

The expected timing of recognition of revenue backlog as revenue in the future is as follows as of December 31, 2013 (in thousands):

	For the Year Ending December 31,						
	2014	2015	2016	2017	2018	Thereafter	Total
Orders executed prior to January 1, 2011	$92,336	$58,171	$24,521	$952	$144	$—	$176,124
Orders executed or materially modified on or after January 1, 2011	200,892	86,678	53,032	27,536	14,674	135	382,947
	$293,228	$144,849	$77,553	$28,488	$14,818	$135	$559,071

Certain orders included in revenue backlog may be reduced, canceled or deferred by our customers. The expected timing of the recognition of revenue backlog as revenue is based on our current estimates and could change based on a number of factors, including (i) the timing of delivery of products and services, (ii) customer cancellations or change orders, or (iii) changes in the estimated period of time Implied Maintenance Release PCS is provided to customers. As there is no industry standard definition of revenue backlog, our reported revenue backlog may not be comparable with other companies. Revenue backlog as of any particular date should not be relied upon as indicative of our net revenues for any future period.

Cost of Revenues, Gross Profit and Gross Margin Percentage

Cost of revenues consists primarily of costs associated with:

- the procurement of components and finished goods;
- the assembly, testing and distribution of finished products;
- warehousing;
- customer support costs related to maintenance contract revenues and other services;
- royalties for third-party software and hardware included in our products;
- amortization of technology; and
- providing professional services and training.

Amortization of technology included in cost of revenues represents the amortization of developed technology assets acquired as part of acquisitions and is described further in the Amortization of Intangible Assets section below.

Costs of Revenues for the Years Ended December 31, 2013 and 2012
(dollars in thousands)

	2013 Costs	Change $	%	2012 Costs
Costs of products revenues	$159,264	$(23,500)	(12.9)%	$182,764
Costs of services revenues	63,177	(493)	(0.8)%	63,670
Amortization of intangible assets	1,468	(1,106)	(43.0)%	2,574
Total cost of revenues	223,909	(25,099)	(10.1)%	249,008
Gross profit	$339,503	$(47,192)	(12.2)%	$386,695

Costs of Revenues for the Years Ended December 31, 2012 and 2011 (Restated)
(dollars in thousands)

	2012 Costs	Change $	%	2011 Costs (Restated)
Costs of products revenues	$182,764	$(5,453)	(2.9)%	$188,217
Costs of services revenues	63,670	(7,138)	(10.1)%	70,808
Amortization of intangible assets	2,574	(119)	(4.4)%	2,693
Total costs of revenues	249,008	(12,710)	(4.9)%	261,718
Gross profit	$386,695	$(118,472)	(23.5)%	$505,167

Gross Margin Percentage

Gross margin percentage, which is net revenues less costs of revenues divided by net revenues, fluctuates based on factors such as the mix of products sold, the cost and proportion of third-party hardware and software included in the systems sold, the offering of product upgrades, price discounts and other sales-promotion programs, the distribution channels through which products are sold, the timing of new product introductions, sales of aftermarket hardware products such as disk drives and currency exchange-rate fluctuations. Our total gross margin percentage for 2013 decreased slightly to 60.3%, from 60.8% for 2012. As previously discussed, the revenues recognized from the amortization of deferred revenues (that is, the recognition of revenue backlog) attributable to transactions executed on or before December 31, 2010 will continue to decline until the related deferred revenue balances are largely amortized in 2016. These revenues have 100% margins, because the timing of the recognition of the deferred costs did not change as a result of our restatement, and our gross margin percentages will be negatively impacted year over year as these revenues decline.

Gross Margin % for the Years Ended December 31, 2013, 2012 and 2011 (Restated)

	2013 Gross Margin %	(Decrease) Increase in Gross Margin %	2012 Gross Margin %	(Decrease) Increase in Gross Margin %	2011 Gross Margin % (Restated)
Products	59.7%	(2.1)%	61.8%	(9.7)%	71.5%
Services	62.4%	3.0%	59.4%	26.1%	33.3%
Total	60.3%	(0.5)%	60.8%	(5.1)%	65.9%

45

2013 Compared to 2012

Our products gross margin percentage from continuing operations for 2013, compared to 2012, was negatively impacted by the effect of the amortization of our deferred revenue balances as discussed above.

The increase in services gross margin percentage from continuing operations for 2013, compared to 2012, was driven by a significant increase in services revenues from maintenance contracts, which have higher gross margins than professional services and training, as well as margin improvement for professional services resulting from enhanced productivity. As mentioned previously, during 2011, we began to include first-year maintenance support with certain product sales, which continues to have a positive effect on our maintenance revenues.

2012 Compared to 2011 (Restated)

Our products gross margin percentage from continuing operations for 2012, compared to 2011 (Restated), was negatively impacted by the impact of the amortization of our deferred revenue balances as previously discussed, as well as the impact of bundling first-year maintenance with certain product sales. As mentioned previously, during 2011 we began to bundle first-year maintenance support with certain of our product sales. This adversely impacted our products gross margin percentages for 2012, compared to 2011 (Restated), but improved our services margins.

The increase in services gross margin percentage for 2012, compared to 2011 (Restated), was driven by a significant increase in services revenues from maintenance contracts, which have higher gross margins than professional services and training, as well as margin improvement for professional services. The bundling of first-year maintenance support with certain product sales had a significant positive effect on our maintenance revenues, resulting in improved margins for those sales. A portion of the margin improvement for professional services was the result of loss provisions recorded as professional services costs in 2011, which were related to professional services contracts assumed as part of a 2010 acquisition.

Operating Expenses and Operating Income

Operating Expenses and Operating Income for the Years Ended December 31, 2013 and 2012
(dollars in thousands)

	2013 Expenses	Change $	%	2012 Expenses
Research and development expenses	$95,249	$(3,630)	(3.7)%	$98,879
Marketing and selling expenses	133,890	(19,591)	(12.8)%	153,481
General and administrative expenses	77,578	25,512	49.0%	52,066
Amortization of intangible assets	2,648	(1,606)	(37.8)%	4,254
Restructuring costs, net	5,370	(19,468)	(78.4)%	24,838
Total operating expenses	$314,735	$(18,783)	(5.6)%	$333,518
Operating income	$24,768	$(28,409)	(53.4)%	$53,177

Operating Expenses and Operating Income for the Years Ended December 31, 2012 and 2011 (Restated)
(dollars in thousands)

	2012	Change		2011
	Expenses	$	%	Expenses (Restated)
Research and development expenses	$98,879	$(12,250)	(11.0)%	$111,129
Marketing and selling expenses	153,481	(9,723)	(6.0)%	163,204
General and administrative expenses	52,066	1,334	2.6%	50,732
Amortization of intangible assets	4,254	(4,274)	(50.1)%	8,528
Restructuring costs, net	24,838	18,304	280.1%	6,534
Total operating expenses	$333,518	$(6,609)	(1.9)%	$340,127
Operating income	$53,177	$(111,863)	(67.8)%	$165,040

Research and Development Expenses

Research and development, or R&D, expenses include costs associated with the development of new products and the enhancement of existing products, and consist primarily of employee salaries and benefits; facilities costs; depreciation; costs for consulting and temporary employees; and prototype and other development expenses. R&D expenses decreased $3.6 million, or 3.7%, during the year ended December 31, 2013, compared to 2012, primarily as a result of our 2012 restructuring actions and improved organizational efficiencies following our 2012 consumer business divestiture.

Year-Over-Year Change in Research and Development Expenses for the Years Ended December 31, 2013 and 2012
(dollars in thousands)

	2013 (Decrease)/Increase From 2012		2012 (Decrease)/Increase From 2011 (Restated)	
	$	%	$	%
Personnel-related expenses	(1,282)	(2.2)%	(7,886)	(11.8)%
Facilities and information technology infrastructure costs	(949)	(5.1)%	(1,361)	(6.4)%
Consulting and outside services	(867)	(5.9)%	(1,536)	(8.9)%
Computer hardware and supplies expenses	455	15.7%	(1,524)	(32.4)%
Other expenses	(987)	(24.8)%	57	1.4%
Total research and development expenses decrease	$(3,630)	(3.7)%	$(12,250)	(11.0)%

2013 Compared to 2012

The decrease in personnel-related expenses was primarily due to decreased salary expenses on lower employee headcount largely resulting from our 2012 restructuring actions, partially offset by higher accruals for incentive-based compensation. The decrease in facilities and information technology infrastructure costs for 2013, compared to 2012, was primarily due to employee headcount reductions and facilities closures resulting from our 2012 restructuring actions, while the decrease in consulting and outside services was primarily the result of a reduction in the use of contract employees and services. The increase in computer hardware and supplies expenses was primarily the result of the increased number of development projects in 2013, when compared to 2012, while the decrease in other expenses was the result of decreases in several expense categories resulting from our restructuring actions and improved organizational efficiencies following our 2012 consumer business divestiture.

2012 Compared to 2011 (Restated)

The decrease in personnel-related expenses for 2012, compared to 2011 (Restated), was primarily due to decreased salary expenses on lower employee headcount largely resulting from our 2012 restructuring actions, while the decrease in consulting and outside services costs was the result of a reduction in the use of contract employees and services. The decrease in computer hardware and supplies expenses was also primarily the result lower expenses on lower employee headcount. The decrease in facilities and information technology infrastructure costs was also primarily due to employee headcount reductions and facilities closures resulting from our 2012 restructuring actions.

Marketing and Selling Expenses

Marketing and selling expenses consist primarily of employee salaries and benefits for selling, marketing and pre-sales customer support personnel; commissions; travel expenses; advertising and promotional expenses; web design costs and facilities costs. Marketing and selling expenses decreased $19.6 million, or 12.8%, during the year ended December 31, 2013, compared to 2012, primarily as a result of our 2012 restructuring actions and improved organizational efficiencies following our 2012 consumer business divestiture.

Year-Over-Year Change in Marketing and Selling Expenses for Years Ended December 31, 2013 and 2012
(dollars in thousands)

	2013 (Decrease)/Increase From 2012		2012 (Decrease)/Increase From 2011 (Restated)	
	$	%	$	%
Personnel-related expenses	$(9,996)	(6.9)%	$(7,307)	(4.8)%
Consulting and outside services costs	(4,221)	(22.9)%	(517)	(2.7)%
Facilities and information technology infrastructure costs	(3,484)	(10.9)%	(748)	(2.3)%
Tradeshow and other promotional expenses	(2,400)	(21.2)%	(2,034)	(15.3)%
Foreign exchange (gains) losses	(509)	(73.1)%	1,189	241.3%
Bad debt expense	126	434.1%	(1,149)	(97.5)%
Other expenses	893	1.6%	843	1.5%
Total marketing and selling expenses decrease	$(19,591)	(12.8)%	$(9,723)	(6.0)%

2013 Compared to 2012

The decrease in personnel-related expenses for 2013, compared to 2012, was primarily due to decreased salary and benefit expense on lower headcount and lower sales commissions on lower revenues, resulting from our 2012 restructuring actions, while the decrease in consulting and outside services was due to lower 2013 costs related to long-term sales and marketing strategy planning. The decrease in facilities and information technology infrastructure costs was primarily due to employee headcount reductions and facilities closures also related to our 2012 restructuring actions.

2012 Compared to 2011 (Restated)

The decrease in personnel-related expenses for 2012, compared to 2011 (Restated), was primarily due to decreased salary and benefit expense on lower headcount resulting from our 2012 restructuring actions and lower sales commissions on lower revenues. The decrease in bad debt expenses was largely the result of lower accounts receivable balances on lower revenues in 2012. The decrease in facilities and information technology infrastructure costs was primarily due to employee headcount reductions and facilities closures resulting from our 2012 restructuring actions, while the decrease in consulting and outside services was due to lower 2012 costs related to long-term sales

and marketing strategy planning.

General and Administrative Expenses

General and administrative expenses consist primarily of employee salaries and benefits for administrative, executive, finance and legal personnel; audit, legal and strategic consulting fees; and insurance, information systems and facilities costs. Information

---

systems and facilities costs reported within general and administrative expenses are net of allocations to other expenses categories. General and administrative expenses increased $25.5 million, or 49.0%, during the year ended December 31, 2013, compared to 2012, primarily as a result of increased costs from the evaluation of, and subsequent financial restatement related to, our historical revenue recognition practices and increased related legal expenses, partially offset by savings resulting from our 2012 restructuring actions and improved organizational efficiencies following our 2012 consumer business divestiture.

Year-Over-Year Change in General and Administrative Expenses for the Years Ended December 31, 2013 and 2012
(dollars in thousands)

	2013 Increase/(Decrease) From 2012		2012 (Decrease)/Increase From 2011 (Restated)	
	$	%	$	%
Consulting and outside services expenses	$26,247	261.6%	$1,806	19.9%
Personnel-related expenses	1,479	5.4%	(1,499)	(5.2)%
Facilities and information technology infrastructure costs	(1,284)	(11.8)%	728	6.5%
Divestiture-related expenses and legal settlement costs	(1,019)	(99.4)%	522	94.0%
Other expenses	89	3.2%	(223)	(6.7)%
Total general and administrative expenses increase	$25,512	49.0%	$1,334	2.6%

2013 Compared to 2012

The increase in consulting and outside services costs in 2013, compared to 2012, was primarily due to $20.6 million in audit, legal and other professional fees for outside services incurred during 2013, but not present in 2012, resulting from the evaluation of, and subsequent financial restatement related to, our historical accounting treatment related to bug fixes, upgrades and enhancements to certain products. The increase in personnel-related expenses was primarily the result of higher accruals for incentive-based compensation, as well as costs related to our management transition, partially offset by lower stock-based compensation expense. The decrease in facilities and information technology infrastructure costs was primarily due to employee headcount reductions and facilities closures resulting from our 2012 restructuring actions. The decrease in divestiture-related expenses and legal settlement costs was primarily the result of certain costs related to our 2012 consumer business divestitures, which were not present in 2013.

2012 Compared to 2011 (Restated)

The decrease in personnel-related expenses for 2012, compared to 2011 (Restated), was largely due to decreased salary and benefit expense on lower headcount. The increase in consulting and outside services costs was primarily the result of increased audit and other professional fees for outside services during 2012. The increase in divestiture-related expenses and legal settlement costs was primarily the result of certain costs related to our 2012 consumer business divestitures, which were not present in 2011 (Restated).

Amortization of Intangible Assets

Intangible assets result from acquisitions and include developed technology, customer-related intangibles, trade names and other identifiable intangible assets with finite lives. These intangible assets are amortized using the straight-line method over the estimated useful lives of such assets, which are generally two years to twelve years. Amortization of developed technology is recorded within cost of revenues. Amortization of customer-related intangibles, trade names and other identifiable intangible assets is recorded within operating expenses.

49

Year-Over-Year Change in Amortization of Intangible Assets for the Years Ended December 31, 2013 and 2012 (dollars in thousands)

	2013 Decrease From 2012		2012 Decrease From 2011 (Restated)	
	$	%	$	%
Amortization of intangible assets recorded in cost of revenues	$(1,106)	(43.0)%	$(119)	(4.4)%
Amortization of intangible assets recorded in operating expenses	(1,606)	(37.8)%	(4,274)	(50.1)%
Total amortization of intangible assets	$(2,712)	(39.7)%	$(4,393)	(39.1)%

2013 Compared to 2012

The decrease in amortization of intangible assets recorded in cost of revenues during 2013, compared to 2012, was primarily the result of certain acquired technology-related intangible assets becoming fully amortized. The decrease in amortization recorded in operating expenses for the same period was primarily the result of certain acquired intangible assets becoming fully amortized.

The unamortized balance of our identifiable intangible assets related to all acquisitions was $4.3 million at December 31, 2013. We expect amortization of these intangible assets to be approximately $1.8 million in 2014, $1.5 million in 2015 and $1.0 million in 2016. See Note J, Intangible Assets, to our Consolidated Financial Statements in Item 8 for further information regarding our identifiable intangible assets.

2012 Compared to 2011 (Restated)

The slight decrease in amortization of intangible assets recorded in cost of revenues during 2012, compared to 2011 (Restated), was primarily the result of changes in foreign currency exchange rates. The decrease in amortization recorded in operating expenses for the same period was primarily the result of certain acquired intangible assets becoming fully amortized.

Restructuring Costs, Net

2013 Restructuring Plans

In June 2013, our new leadership evaluated the marketing and selling teams and, in an effort to better align sales resources with our strategic goals and enhance our global account team approach, eliminated 31 positions. As a result, we recognized related restructuring costs of $1.7 million in 2013.

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

2012 Restructuring Plan

In June 2012, we committed to a series of strategic actions, or the 2012 Plan, to focus on our Broadcast and Media and Video and Audio Post and Professional markets and to drive improved operating performance. These actions included the divestiture of certain of our 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, the abandonment of one of our facilities in Burlington, Massachusetts and the partial abandonment of facilities in

Mountain View and Daly City, California in September 2012. During 2012, we recorded restructuring charges of $13.9 million related to severance costs and $8.6 million for the closure or partial closure of facilities.

During 2013, we recorded $0.1 million in additional severance costs and revisions totaling $1.8 million resulting from sublease assumption changes and other costs related to the abandoned facilities under the 2012 Plan. We substantially completed all actions under the 2012 Plan prior to December 31, 2012.

2011 Restructuring Plan

In October 2011, we committed to a restructuring plan, or the 2011 Plan, intended to improve operational efficiencies. Actions under the 2011 Plan included the elimination of approximately 210 positions and the closure of our facility in Irwindale, California. During 2011 (Restated), we recorded $8.9 million related to severance costs and $0.2 million related to the closure of the Irwindale facility. During 2012, we recorded restructuring recoveries of $0.3 million as a result of revised severance estimates. There is no remaining accrual balance related to this plan at December 31, 2013, and no further restructuring actions are anticipated under this plan.

2010 Restructuring Plan

In December 2010, we initiated a worldwide restructuring plan, or the 2010 Plan, designed to better align financial and human resources in accordance with its strategic plans. During 2011, we recorded restructuring expense recoveries of $3.2 million as a result of revised severance estimates, as well as $0.7 million in additional costs related to the closure of a facility in Germany. During 2012, we recorded revisions totaling $0.7 million as a result of sublease assumption changes for the partial abandonment of a facility in Daly City, California under the 2010 Plan. The remaining accrual balance of $0.5 million at December 31, 2013 is related to the closure of part of our Daly City, California facility. No further restructuring actions are anticipated under this plan.

2008 Restructuring Plan

In October 2008, we initiated a company-wide restructuring plan, or the 2008 Plan. During 2012, we recorded revisions totaling $1.8 million as a result of sublease assumption changes for the partial abandonment of a facility in Daly City, California, under the 2008 Plan. The remaining accrual balance of $2.2 million at December 31, 2013 is related to the closure of part of our Daly City, California and Dublin, Ireland facilities. No further restructuring actions are anticipated under this plan.

Interest and Other Income (Expense), Net

Interest and other income (expense), net, generally consists of interest income and interest expense.

Interest and Other Income (Expense) for the Years Ended December 31, 2013 and 2012
(dollars in thousands)

	2013	Change		2012
	Income (Expense)	$	%	Income (Expense)
Interest income	$555	$345	164.3%	$210
Interest expense	(1,574)	(26)	(1.7)%	(1,548)
Other income (expense), net	343	1,046	148.8%	(703)
Total interest and other income (expense), net	$(676)	$1,365	66.9%	$(2,041)

Interest and Other Income (Expense) for the Years Ended December 31, 2012 and 2011 (Restated)
(dollars in thousands)

	2012	Change (Restated)		2011
	Income (Expense)	$	%	Income (Expense) (Restated)
Interest income	$210	$68	47.9%	$142
Interest expense	(1,548)	380	19.7%	(1,928)

Other income (expense), net	(703	)	(544	)	(342.1)%	(159	)
Total interest and other income (expense), net	$(2,041	)	$(96	)	(4.9)%	$(1,945	)

The change in interest and other income (expense), net for 2013, compared to 2012, was primarily the result of changes in the valuation of a deferred compensation plan. During 2013, there was a decrease in the valuation of the plan resulting in net income

recorded in other income (expense), compared to an increase in the valuation in 2012 that resulted in net expense recorded as other income (expense).

The change in interest and other income (expense), net for 2012, compared to 2011 (Restated), was the result of decreased interest expense related to our revolving credit facilities due to lower average outstanding borrowings resulting from lower borrowing requirements in 2012, as well as the net expense related to the deferred compensation plan recorded in 2012.

Provision for Income Taxes, Net

Provision for Income Taxes, Net for the Years Ended December 31, 2013 and 2012
(dollars in thousands)

	2013 Provision	Change $	%	2012 Provision
Provision for income taxes, net	$2,939	$(1,110)	(27.4)%	$4,049

Provision for Income Taxes, Net for the Years Ended December 31, 2012 and 2011 (Restated)
(dollars in thousands)

	2012 Provision	Change (Restated) $	%	2011 Provision (Restated)
Provision for income taxes, net	$4,049	$3,414	537.6%	$635

Our effective tax rate, which represents our tax provision as a percentage of income before tax, was 12.2%, 7.9% and 0.4%, respectively, for 2013, 2012 and 2011 (Restated). Our 2013 provision for income taxes decreased by approximately $1.1 million from 2012, primarily as a result of changes in the jurisdictional mix of earnings and overall lower profitability of the business. During 2013, there were no significant discrete tax items that impacted the tax provision. The net tax provision of $4.0 million for 2012 included the following discrete items: a $2.3 million withholding tax liability, including interest and penalties, on a Canadian dividend; a $1.4 million tax provision associated with an Irish income tax audit; a $0.5 million tax provision associated with a change in the Company's indefinite reinvestment assertion with respect to its Canadian subsidiary; and the adjustment of a valuation allowance against certain foreign deferred tax assets of $0.7 million; largely offset by a $3.8 million benefit for a refund claim related to a previously accrued Canadian withholding tax liability and a $0.7 million benefit for the release of a tax reserve. The net tax provision of $0.6 million for 2011 (Restated) reflected a current tax provision of $2.6 million, primarily related to taxable profits in certain jurisdictions and the settlement of a foreign tax position, and a deferred tax benefit of $2.0 million, primarily resulting from a foreign tax law change that allowed us to record a tax benefit for tax loss carryforwards and foreign amortization of nondeductible acquisition-related intangible assets.

We have significant net deferred tax assets that are primarily a result of tax credits and operating loss carryforwards. The realization of the net deferred tax assets is dependent upon the generation of sufficient future taxable income in the applicable tax jurisdictions. We regularly review our deferred tax assets for recoverability with consideration for such factors as historical losses, projected future taxable income, the expected timing of the reversals of existing temporary differences, and tax planning strategies. ASC Topic 740, Income Taxes, requires us to record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on the magnitude of our deferred tax assets at December 31, 2013 and our level of historical U.S. losses, we have determined that the uncertainty regarding the realization of these assets is sufficient to warrant the need for a full valuation allowance against our U.S. deferred tax assets. We have also determined that a valuation allowance is warranted on a portion of our foreign deferred tax assets.

Discontinued Operations

On July 2, 2012, we sold, in two separate transactions, a group of consumer audio and video products and certain related intellectual property with a negative carrying value of $25.0 million for total consideration of $14.8 million, recording a gain of $38.0 million net of $1.9 million of costs incurred to sell the assets. The audio assets were sold for $11.8 million. Proceeds of $10.9 million were received for the audio assets in 2012, with the remaining proceeds held in escrow until a final release date that

occurred in March 2014. The video assets were sold for $3.0 million. Proceeds of $2.4 million were received for the video assets during the third quarter of 2012, with the remaining proceeds held in escrow until a final release date that occurred in January 2014.

The following table presents the income from discontinued operations for the years ended December 31, 2012 and 2011 (Restated) (in thousands):

	2012	2011 (Restated)
Net revenues	$46,101	$155,870
Costs of revenues	33,265	68,671
Gross profit	12,836	87,199
Operating expenses	5,004	23,292
Income from divested operations	7,832	63,907
Gain on divestiture of consumer business	37,972	—
Income from discontinued operations	$45,804	$63,907

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Sources of Cash

We have generally funded our operations in recent years through the use of existing cash balances, which we have supplemented from time to time since the fourth quarter of 2010 with borrowings under our credit facilities. At December 31, 2013, our principal sources of liquidity included cash and cash equivalents totaling $48.2 million and available borrowings under our credit facilities as discussed below.

At December 31, 2013, our working capital was $(133.0) million, compared to $(96.0) million at December 31, 2012. Our working capital deficit at both dates was largely due to the significant level of deferred revenues recorded, which consist of service obligations that do not represent meaningful cash requirements. As a result of the application of the relevant revenue recognition guidance, we have deferred a significant portion of revenues from sales transactions occurring prior to 2011 to subsequent periods and recorded them as deferred revenues. A significant portion of the deferred revenues balances related to 2011 and prior periods has been recognized during the three-year period ended December 31, 2013, and most of the remainder will be recognized into revenues during the next three years. We experienced a decrease in cash during 2013 due to significantly higher outside professional fees and consultant costs resulting from the evaluation of our current and historical accounting treatment related to bug fixes, upgrades and enhancements to certain products and the related restatement of our financial statements.

Our cash requirements vary depending on factors such as the growth of our business, changes in working capital, capital expenditures, our acquisition of businesses or technologies and obligations under restructuring programs. We believe that we have sufficient cash, cash equivalents, funds generated from operations and funds available under our credit facilities to meet our operational and strategic objectives for at least the next twelve months, as well as for the foreseeable future.

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

The Credit Agreement contains customary representations and warranties, covenants, mandatory prepayments, and events of default under which our payment obligations may be accelerated, including guarantees and liens on substantially all of our assets to secure their obligations under the Credit Agreement. The Credit Agreement requires that Avid Technology, Inc., our parent company, maintain liquidity (comprised of unused availability under its portion of the credit facilities plus certain unrestricted cash and cash equivalents) of $10.0 million, at least $5.0 million of which must be from unused availability under its portion of

the credit facilities, and our subsidiary, Avid Technology International B.V., or Avid Europe, is required to maintain liquidity (comprised of unused availability under the Avid Europe portion of the credit facilities plus certain unrestricted cash and cash equivalents) of $5.0 million, at least $2.5 million of which must be from unused availability under the Avid Europe portion of the credit facilities. The Credit Agreement further limits our ability to access borrowings under the credit facilities in the event capital expenditures, as defined in the Credit Agreement, exceed $16.0 million for the year ending December 31, 2014 or EBITDA (as defined in the Amendment) of $33.8 million for the year ending December 31, 2014 is not achieved. Interest accrues on outstanding borrowings under the credit facilities at a rate of either LIBOR plus 2.75% or a base rate (as defined in the Credit Agreement) plus 1.75%, at the option of Avid Technology, Inc. or Avid Europe, as applicable. We must also pay Wells Fargo a monthly unused line fee at a rate of 0.625% per annum. Any borrowings under the credit facilities are secured by a lien on substantially all the assets of Avid Technology and Avid Europe. See Note A, “Business and Summary of Significant Accounting Policies - Subsequent Events,” to our Consolidated Financial Statements for further detail on the amendment to our Credit Agreement.

We incur certain loan fees and costs associated with our credit facilities. Such costs are capitalized as deferred borrowing costs and amortized as interest expense on a straight-line basis over the term of the Credit Agreement. At December 31, 2013, the balance of our deferred borrowing costs was $0.2 million, net of accumulated amortization of $1.0 million.

At various times during the year ended December 31, 2012, our U.S. operations borrowed and repaid a total of $11.0 million and the European operations borrowed and repaid a total of $3.0 million under the credit facilities. These funds were used primarily to facilitate the settlement of certain intercompany balances and payment of intercompany dividends. During the year ended December 31, 2013, we did not utilize our credit facilities, and at December 31, 2013, we had no outstanding borrowings under the facilities. At December 31, 2013, Avid Technology, Inc. and Avid Europe had letters of credit guaranteed under the credit facilities of $3.4 million and $1.7 million, respectively, with available borrowings under the credit facilities of approximately $18.4 million and $15.5 million, respectively, after taking into consideration the outstanding letters of credit and related liquidity covenant.

At July 31, 2014, we had outstanding borrowings of $10.0 million under the credit facilities, and the remaining availability totaled approximately $15.6 million.

We believe that our existing sources of liquidity and access to additional capital is a significant factor for our future development and the implementation of our growth strategy, and accordingly we may choose at any time to raise capital through debt or equity financing to strengthen our financial position, facilitate growth and provide us with additional flexibility to take advantage of business opportunities. This may result in further dilution to our stockholders. There can be no assurance that additional financing will be available to us when needed or, if available, that such financing can be obtained on commercially reasonable terms. If we are not able to obtain the additional financing on a timely basis should it be required, or generate significant material revenues from operations, we may not be able to execute our business strategy.

Cash Flows

The following table summarizes our cash flows for the years ended December 31, 2013, 2012 and 2011 (Restated) (in thousands):

	Year Ended December 31,		
	2013	2012	2011 (Restated)
Net cash (used in) provided by operating activities	$(9,145)	$34,709	$2,967
Net cash (used in) provided by investing activities	(11,536)	1,697	(12,192)

Net cash (used in) provided by financing activities	(96)	354	2,026
Effect of foreign currency exchange rates on cash and cash equivalents	(1,410)	775	(2,728)
Net (decrease) increase in cash and cash equivalents	$(22,187)	$37,535	$(9,927)

Cash Flows from Operating Activities

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 activities and executive management changes of $13.2 million,

$13.2 million and $2.4 million, respectively. The spending associated with the restatement-related 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.

Working capital items, excluding cash, decreased by $61.0 million in the aggregate for the year ended December 31, 2013, reflecting primarily the non-cash amortization of pre-2011 deferred revenues and payments related to pre-2013 restructuring activities, partially offset by improvements in cash collections of accounts receivable, lower cash investments in inventory and the timing of incentive-compensation payments.

Accounts receivable decreased $11.2 million for the year ended December 31, 2013, largely reflecting improved cash collections. Accounts receivable balances are net of allowances for sales returns, bad debts and customer rebates, all of which we estimate and record based primarily on historical experience.

Inventory decreased $9.0 million for the year ended December 31, 2013, reflecting our efforts to further optimize working capital investments through improved supply chain discipline. Inventory includes component parts, finished goods as well as inventory at customer sites related to shipments for which we have not yet recognized revenue. Inventory is sourced from third party suppliers, located primarily in Asia.

Cash Flows from Investing Activities

For the year ended December 31, 2013, the net cash flow used in investing activities primarily reflected $11.6 million used for the purchase of property and equipment. Our purchases of property and equipment typically consist of computer hardware and software to support our R&D activities and information systems. We expect our 2014 capital expenditures to be in line with those for 2013.

Cash Flows from Financing Activities

For the year ended December 31, 2013, the net cash flow used in financing activities primarily reflected costs associated with tax withholding obligations related to the issuance of common stock upon vesting of restricted stock awards. During most of 2013, the exercise of stock options and the sale of shares under our employee stock purchase plan were suspended during our evaluation of, and subsequent financial restatement related to, our historical accounting treatment related to bug fixes, upgrades and enhancements to certain products. During 2013, we did not borrow against our credit facilities, and at December 31, 2013, we had no outstanding borrowings under the facilities.

CONTRACTUAL AND COMMERCIAL OBLIGATIONS

The following table sets forth future payments that we were obligated to make at December 31, 2013 under existing lease agreements and commitments to purchase inventory and other goods and services (in thousands):

	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Operating leases	$85,075	$20,183	$25,965	$20,427	$18,500
Unconditional purchase obligations (a)	27,607	27,607	—	—	—
	$112,682	$47,790	$25,965	$20,427	$18,500

(a) At December 31, 2013, we had entered into purchase commitments for certain inventory and other goods and services used in our normal operations. The purchase commitments covered by these agreements are generally for a period of less than one year.

Other contractual arrangements or unrecognized tax positions that may result in cash payments consisted of the following at December 31, 2013 (in thousands):

	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years	Other (a)
Unrecognized tax positions and related interest	$800	$—	$—	$—	$—	$800
Stand-by letters of credit	5,723	1,869	1,288	—	2,566	—
	$6,523	$1,869	$1,288	$—	$2,566	$800

(a) At December 31, 2013, unrecognized tax benefits and related interest totaled $24.7 million, of which $0.8 million would result in cash payments. We are unable to reasonably estimate the timing of the liability in any particular year due to uncertainties in the timing of the effective settlement of the positions.

We have three letters of credit at a bank that are used as security deposits in connection with our leased Burlington, Massachusetts headquarters office space. In the event of default on the underlying leases, the landlords would, at December 31, 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 that we are not in default of the underlying leases and meet 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.

We also have a standby letter of credit at a bank that is used as a security deposit in connection with our Daly City, California office space lease. In the event of a default on this lease, the landlord would be eligible to draw against this letter of credit to a maximum, at December 31, 2013, of $0.8 million. The letter of credit will remain in effect at this amount throughout the remaining lease period, which runs through September 2014. We are not renewing this lease at the end of the term and expect the letter of credit to be released at that time.

In addition, we have letters of credit totaling $2.4 million that support our ongoing operations. These letters of credit have various terms and expire during 2014 and 2015. Some of the letters of credit may automatically renew based on the terms of the underlying agreements.

We operate our business globally and, consequently, our results from operations are exposed to movements in foreign currency exchange rates. We enter into foreign currency contracts, which generally have one-month maturities, to reduce exposures associated with the foreign exchange risks of certain forecasted third-party and intercompany receivables, payables and cash balances. At December 31, 2013, we had foreign currency contracts outstanding with an aggregate notional value of $21.0 million, denominated in the euro, British pound, Japanese yen, Danish krone, Canadian dollar and Singapore dollar, as a hedge against forecasted foreign currency denominated receivables, payables and cash balances.

OFF-BALANCE SHEET ARRANGEMENTS

Other than operating leases, we do not engage in off-balance sheet financing arrangements or have any variable-interest entities. At December 31, 2013, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

RECENT ACCOUNTING PRONOUNCEMENTS

Recent Accounting Pronouncements To Be Adopted

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Foreign Currency Exchange Risk

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

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

We record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as hedges of the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk are considered fair value hedges. Derivatives designated and qualifying as hedges of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of our risks, even though we elect not to apply hedge accounting.

In an effort to hedge against the foreign exchange exposure of certain forecasted receivables, payables and cash balances, we enter into short-term foreign currency forward contracts. There are two objectives of this foreign currency forward-contract program: (1) to offset any foreign exchange currency risk associated with cash receipts expected to be received from our customers and cash payments expected to be made to our vendors over the following 30 days and (2) to offset the impact of foreign currency exchange on our net monetary assets denominated in currencies other than the functional currency of the legal entity. These forward contracts typically mature within 30 days of execution. We record gains and losses associated with currency rate changes on these contracts in results of operations, offsetting gains and losses on the related assets and liabilities. At December 31, 2013, we had such foreign currency forward contracts outstanding with an aggregate notional value of $21.0 million, denominated in the euro, British pound, Japanese yen, Danish krone, Canadian dollar and Singapore dollar, as a hedge against actual and forecasted foreign-currency-denominated receivables, payables and cash balances. At December 31, 2013, we also had short-term foreign currency spot and forward contracts with an aggregate notional value of $5.4 million, denominated in the euro, Canadian dollar and Japanese yen, as a hedge against the foreign currency exchange risk associated with certain of our net monetary assets denominated in foreign currencies.

We have not designated these forward contracts as hedging instruments and, accordingly, we recorded the fair value of these contracts at the end of each reporting period in our consolidated balance sheet, with changes in the fair value recorded in our marketing and selling expenses. At December 31, 2013, the aggregate fair value of the outstanding

derivatives was $(0.2) million. During the years ended December 31, 2013, 2012 and 2011 (Restated), we recorded net (losses) gains of $(0.2) million, $(0.7) million and $0.5 million, respectively, that resulted from the gains and losses on our foreign currency contracts and the revaluation of the related hedged items.

A hypothetical change of 10% in appreciation or depreciation of foreign currency exchange rates from the quoted foreign currency exchange rates at December 31, 2013, would not have a significant impact on our financial position, results of operations or cash flows, assuming the above-mentioned forecasts of foreign currency exposure are accurate, because the impact on the foreign currency contracts as a result of a 10% change would at least partially offset the impact on the revenues and asset and liability positions of our foreign subsidiaries.

Interest Rate Risk

At December 31, 2013, we held $48.2 million in cash and cash equivalents. Due to the short maturities on any instruments held, a hypothetical 10% increase or decrease in interest rates would not have a material impact on our financial position, results of operations or cash flows. In 2010, we established revolving credit facilities that allow us to borrow up to $60 million, depending upon the level of certain accounts receivable and inventory balances and subject to other terms and conditions. At December 31, 2013, we had no outstanding borrowings under the credit facilities. A hypothetical 10% increase or decrease in interest rates payable on outstanding borrowings under the credit facilities would not have a material impact on our financial position, results of operations or cash flows.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY FINANCIAL INFORMATION

AVID TECHNOLOGY, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE

CONSOLIDATED FINANCIAL STATEMENTS INCLUDED IN ITEM 8:	Page
Report of Independent Registered Public Accounting Firm	60
Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011 (Restated)	61
Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2012 and 2011 (Restated)	62
Consolidated Balance Sheets as of December 31, 2013 and 2012	63
Consolidated Statements of Stockholders' Deficit for the years ended December 31, 2013, 2012 and 2011 (Restated)	64
Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011 (Restated)	65
Notes to Consolidated Financial Statements	66

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Avid Technology, Inc.
Burlington, Massachusetts

We have audited the accompanying consolidated balance sheets of Avid Technology, Inc. and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, stockholders' deficit, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note B to the financial statements, the accompanying 2011 consolidated financial statements have been restated to correct errors in the previously issued financial statements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 11, 2014 expressed an adverse opinion on the Company's internal control over financial reporting due to the material weaknesses identified.

/s/ Deloitte & Touche LLP

Boston, Massachusetts
September 11, 2014

AVID TECHNOLOGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31,		
	2013	2012	2011 (Restated)
Net revenues:			
Products	$395,531	$478,830	$660,720
Services	167,881	156,873	106,165
Total net revenues	563,412	635,703	766,885
Cost of revenues:			
Products	159,264	182,764	188,217
Services	63,177	63,670	70,808
Amortization of intangible assets	1,468	2,574	2,693
Total cost of revenues	223,909	249,008	261,718
Gross profit	339,503	386,695	505,167
Operating expenses:			
Research and development	95,249	98,879	111,129
Marketing and selling	133,890	153,481	163,204
General and administrative	77,578	52,066	50,732
Amortization of intangible assets	2,648	4,254	8,528
Restructuring costs, net	5,370	24,838	6,534
Total operating expenses	314,735	333,518	340,127
Operating income	24,768	53,177	165,040
Interest income	555	210	142
Interest expense	(1,574)	(1,548)	(1,928)
Other income (expense), net	343	(703)	(159)
Income from continuing operations before income taxes	24,092	51,136	163,095
Provision for income taxes, net	2,939	4,049	635
Income from continuing operations, net of tax	21,153	47,087	162,460
Discontinued operations:			
Gain on divestiture of consumer business	—	37,972	—
Income from divested operations	—	7,832	63,907
Income from discontinued operations	—	45,804	63,907
Net income	$21,153	$92,891	$226,367
Income per common share – basic:			
Income per share from continuing operations, net of tax – basic	$0.54	$1.21	$4.23
Income per share from discontinued operations – basic	—	1.18	1.66
Net income per common share – basic	$0.54	$2.39	$5.89
Income per common share – diluted:			
Income per share from continuing operations, net of tax – diluted	$0.54	$1.21	$4.22
Income per share from discontinued operations – diluted	—	1.18	1.65
Net income per common share – diluted	$0.54	$2.39	$5.87
Weighted-average common shares outstanding – basic	39,044	38,804	38,435
Weighted-average common shares outstanding – diluted	39,070	38,836	38,534

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

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

	Year Ended December 31,		
	2013	2012	2011 (Restated)
Net income	$21,153	$92,891	$226,367
Other comprehensive income (loss):			
Net change in defined benefit plan	—	—	146
Foreign currency translation adjustments	(1,717)	606	(2,319)
Comprehensive income	$19,436	$93,497	$224,194

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

AVID TECHNOLOGY, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except par value)

	December 31,	
	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	$48,203	$70,390
Accounts receivable, net of allowances of $13,963 and $20,977 at December 31, 2013 and 2012, respectively	56,770	67,956
Inventories	60,122	69,143
Deferred tax assets, net	522	586
Prepaid expenses	7,778	9,060
Other current assets	17,493	19,950
Total current assets	190,888	237,085
Property and equipment, net	35,186	41,441
Intangible assets, net	4,260	9,217
Long-term deferred tax assets, net	2,415	2,825
Other long-term assets	2,393	3,793
Total assets	$235,142	$294,361
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$33,990	$35,425
Accrued compensation and benefits	30,342	25,177
Accrued expenses and other current liabilities	41,273	34,003
Income taxes payable	6,875	7,969
Deferred tax liabilities, net	14	203
Deferred revenues	211,403	230,305
Total current liabilities	323,897	333,082
Long-term deferred tax liabilities, net	565	713
Long-term deferred revenues	255,429	328,180
Other long-term liabilities	14,586	17,978
Total liabilities	594,477	679,953
Commitments and contingencies (Notes L and O)		
Stockholders' deficit:		
Preferred stock, $0.01 par value, 1,000 shares authorized; no shares issued or outstanding	—	—
Common stock, $0.01 par value, 100,000 shares authorized; 42,339 shares and 42,339 shares issued and 39,082 shares and 38,936 shares outstanding at December 31, 2013 and 2012, respectively	423	423
Additional paid-in capital	1,043,384	1,039,562
Accumulated deficit	(1,336,526)	(1,357,679)
Treasury stock at cost, net of reissuances, 3,257 shares and 3,403 shares at December 31, 2013 and 2012, respectively	(72,543)	(75,542)
Accumulated other comprehensive income	5,927	7,644
Total stockholders' deficit	(359,335)	(385,592)
Total liabilities and stockholders' deficit	$235,142	$294,361

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

AVID TECHNOLOGY, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(in thousands)

	Shares of Common Stock			Additional			Accumulated Other	Total
	Issued	In Treasury	Common Stock	Paid-in Capital	Accumulated Deficit	Treasury Stock	Comprehensive Income	Stockholders' Equity (Deficit)
Balances at December 31, 2010 (As reported)	42,339	(4,164)	$423	$1,005,198	$(495,254)	$(91,025)	$7,268	$426,610
Cumulative prior period adjustments resulting from restatement and other revisions				12,204	(751,093)		1,943	(736,946)
Balances at December 31, 2010 (Restated)	42,339	(4,164)	423	1,017,402	(1,246,347)	(91,025)	9,211	(310,336)
Cumulative-effect adjustments due to adoption of ASU No. 2010-28					(419,368)			(419,368)
Stock issued pursuant to employee stock plans		430		(1,213)	(5,485)	8,724		2,026
Stock-based compensation (Restated)				12,609				12,609
Net income (Restated)					226,367			226,367
Other comprehensive loss (Restated)							(2,173)	(2,173)
Balances at December 31, 2011 (Restated)	42,339	(3,734)	423	1,028,798	(1,444,833)	(82,301)	7,038	(490,875)
Stock issued pursuant to employee stock plans		331		(668)	(5,737)	6,759		354
Stock-based compensation				11,432				11,432
Net income					92,891			92,891
Other comprehensive income							606	606
Balances at December 31, 2012	42,339	(3,403)	423	1,039,562	(1,357,679)	(75,542)	7,644	(385,592)
Stock issued pursuant to employee stock plans		146		(3,095)		2,999		(96)
Stock-based compensation				6,917				6,917
Net income					21,153			21,153

Other comprehensive loss							(1,717)	(1,717)
Balances at December 31, 2013	42,339	(3,257)	$423	$1,043,384	$(1,336,526)	$(72,543)	$5,927	$(359,335)

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

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

	Year Ended December 31,		
	2013	2012	2011 (Restated)
Cash flows from operating activities:			
Net income	$21,153	$92,891	$226,367
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	22,767	27,495	31,983
Provision for doubtful accounts	157	125	1,473
Non-cash provision for restructuring	—	1,459	326
(Gain) loss on sales of assets	(125)	(252)	597
Gain on divestiture of consumer business	—	(37,972)	—
Stock-based compensation expense	6,917	11,432	12,609
Non-cash interest expense	294	294	301
Foreign currency transaction (gains) losses	(10)	(1,251)	1,818
Provision for deferred taxes	730	(400)	(1,994)
Changes in operating assets and liabilities:			
Accounts receivable	11,030	26,765	(3,804)
Inventories	9,021	20,844	(3,317)
Prepaid expenses and other current assets	4,393	(3,745)	(223)
Accounts payable	(1,416)	(7,111)	(4,533)
Accrued expenses, compensation and benefits and other liabilities	8,932	(3,300)	(17,436)
Income taxes payable	(1,324)	676	(640)
Deferred revenues	(91,664)	(93,241)	(240,560)
Net cash (used in) provided by operating activities	(9,145)	34,709	2,967
Cash flows from investing activities:			
Purchases of property and equipment	(11,625)	(9,703)	(10,795)
Capitalized software development costs	—	—	(1,242)
Change in other long-term assets	(36)	(40)	(155)
Proceeds from divestiture of consumer business	—	11,440	—
Proceeds from sale of assets	125	—	—
Net cash (used in) provided by investing activities	(11,536)	1,697	(12,192)
Cash flows from financing activities:			
Proceeds from the issuance of common stock under employee stock plans	177	1,022	3,239
Common stock repurchases for tax withholdings for net settlement of equity awards	(273)	(668)	(1,213)
Proceeds from revolving credit facilities	—	14,000	21,000
Payments on revolving credit facilities	—	(14,000)	(21,000)
Net cash (used in) provided by financing activities	(96)	354	2,026
Effect of exchange rate changes on cash and cash equivalents	(1,410)	775	(2,728)
Net (decrease) increase in cash and cash equivalents	(22,187)	37,535	(9,927)
Cash and cash equivalents at beginning of year	70,390	32,855	42,782
Cash and cash equivalents at end of year	$48,203	$70,390	$32,855

Cash paid for income taxes, net of refunds	$2,173	$6,554	$3,805
Cash paid for interest	1,281	1,224	1,508

See Note I for supplemental disclosures.

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

AVID TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Avid Technology, Inc. ("Avid" or the "Company") provides technology solutions that enable the creation and monetization of audio and video content. Specifically, the Company develops, markets, sells and supports 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. The Company's 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 Avid's products include feature films, prime-time television shows, news programs, commercials, music, video and other recordings.

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, which are discussed in Note R. 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.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany balances and transactions have been eliminated.

Basis of Presentation

The Company's preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from the Company's estimates.

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, and (iii) added certain financial 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 described in Note R.

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 consolidated financial statements and, except for the subsequent events disclosed above and in Notes L, M and R, no other recognized or unrecognized subsequent events required recognition or disclosure in these financial statements.

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 Avid.

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 the Company 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 (referred to by the Company as "Implied Maintenance Release PCS").

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. In accordance with Accounting Standards Update ("ASU") No. 2009-13, Multiple-Deliverable Revenue Arrangements, an amendment to ASC Topic 605 ("ASU No. 2009-13") 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) vendor-specific objective evidence ("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 for each deliverable where it is required, 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 products are sold and expected discounts based on the customer size and type.

In determining a BESP for Implied Maintenance Release PCS, which the Company has never sold separately, management 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 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 deemed service period of Implied Maintenance Release PCS for a product has changed significantly after original revenue recognition has commenced, the Company will modify remaining estimated deemed service period accordingly and recognize the then-remaining deferred revenue balance over the revised deemed service period.

The Company has established VSOE of fair value for all professional services and training and for some of its 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, Certain Revenue Arrangements That Include Software Elements, an amendment to ASC Subtopic 985-605 ("ASU No. 2009-14"), the Company excludes from the scope of software revenue recognition requirements its 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 our 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 its 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 BESP, 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. As a result of the adoption of these standards, the Company recorded increased revenues and net income of approximately $300 million for the year ended December 31, 2011 (Restated) as compared with results that would have been recorded under the prior accounting standards.

The timing of revenue recognition of customer arrangements follows a number of different accounting models determined by the characteristics of the arrangement, and that timing can vary significantly from the timing of related cash payments due from customers. One significant factor affecting the timing of revenue recognition is the determination of whether each deliverable in the arrangement is considered to be a software deliverable or a non-software deliverable, as defined under GAAP.

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 have 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 twelve 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, it 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 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 most 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.

Other Revenue Recognition Policies

In a limited number of arrangements, the professional services and training to be delivered are considered essential to the functionality of the Company's software products. If services sold in an arrangement are deemed to be essential to the functionality of the software products, the arrangement is accounted for using contract accounting. As the Company has concluded that it cannot reliably estimate its contract costs, the Company uses the completed contract method of contract accounting. The completed contract method of accounting defers all revenue and costs until the date that the products have been delivered and professional services, exclusive of post-contract customer support, have been completed. Deferred costs related to fully deferred contracts are recorded as a component of inventories in the consolidated balance sheet, and generally all other costs of sales are recognized when revenue recognition commences.

The Company records as revenues all amounts billed to customers for shipping and handling costs and records its actual shipping costs as a component of cost of revenues. Reimbursements received from customers for out-of-pocket expenses are recorded as revenues, with related costs recorded as cost of revenues. The Company presents revenues net of any taxes collected from customers and remitted to government authorities.

In the consolidated statements of operations, the Company classifies revenues as product revenues or services revenues. For multiple-element arrangements that include both product and service elements, including Implied Maintenance Release PCS, the Company evaluates available indicators of fair value and applies its judgment to reasonably classify the arrangement fee between product revenues and services revenues. The amount of multiple-element arrangement fees classified as product and service revenues based on management estimates of fair value when VSOE of fair value for all elements of an arrangement does not exist could differ from amounts classified as product and service revenues if VSOE of fair value for all elements existed.

Allowance for Sales Returns and Exchanges

The Company maintains allowances for estimated potential sales returns and exchanges from its customers. The Company records a provision for estimated returns and other allowances as a reduction of revenues in the same period that related revenues are recorded based on historical experience and specific customer analysis. Use of management estimates is required in connection with establishing and maintaining a sales allowance for expected returns and other credits. If actual returns differ from the estimates, additional allowances could be required.

The following table sets forth the activity in the allowance for sales returns and exchanges for the years ended December 31, 2013, 2012 and 2011 (Restated) (in thousands):

	Year Ended December 31,		
	2013	2012	2011 (Restated)
Allowance for sales returns and exchanges – beginning of year	$19,460	$22,767	$23,658
Adjustments to the allowance	9,243	11,402	22,161
Deductions against the allowance	(16,184)	(14,709)	(23,052)
Allowance for sales returns and exchanges – end of year	$12,519	$19,460	$22,767

Allowances for Doubtful Accounts

The Company maintains allowances for estimated losses from bad debt resulting from the inability of its customers to make required payments for products or services. When evaluating the adequacy of the allowances, the Company analyzes accounts receivable balances, historical bad debt experience, customer concentrations, customer credit worthiness and current economic trends. To date, actual bad debts have not differed materially from management's estimates.

The following table sets forth the activity in the allowance for doubtful accounts for the years ended December 31, 2013, 2012 and 2011 (Restated) (in thousands):

	Year Ended December 31,		
	2013	2012	2011 (Restated)
Allowance for doubtful accounts – beginning of year	$1,517	$2,401	$2,928
Additions to the allowance	157	125	1,473
Deductions against the allowance	(230)	(1,009)	(2,000)
Allowance for doubtful accounts – end of year	$1,444	$1,517	$2,401

Translation of Foreign Currencies

The functional currency of each of the Company's foreign subsidiaries is the local currency, except for the Irish manufacturing branch whose functional currency is the U.S. dollar due to the extensive interrelationship of the operations of the Irish branch and the U.S. parent and the high volume of intercompany transactions between that branch and the parent. The assets and liabilities of the subsidiaries whose functional currencies are other than the U.S. dollar are translated into U.S. dollars at the current exchange rate in effect at the balance sheet date. Income and expense items for these entities are translated using rates that approximate those in effect during the period. Cumulative translation adjustments are included in accumulated other comprehensive income (loss), which is reflected as a separate component of stockholders' deficit. The Company does not record tax provisions or benefits for the net changes in the foreign currency translation adjustment as the Company intends to permanently reinvest undistributed earnings in its foreign subsidiaries.

The U.S. parent company and its Irish manufacturing branch, both of whose functional currency is the U.S. dollar, carry certain monetary assets and liabilities denominated in currencies other than the U.S. dollar. These assets and liabilities typically include cash, accounts receivable and intercompany operating balances denominated in foreign currencies. These assets and liabilities are remeasured into the U.S. dollar at the current exchange rate in effect at the balance sheet date. Foreign currency transaction and remeasurement gains and losses are included within marketing and selling expenses in the results of operations. See Note D for the net foreign exchange gains and losses recorded in the Company's statements of operations during the years ended December 31, 2013, 2012 and 2011 (Restated) that resulted from the gains and losses on Company's foreign currency contracts and the revaluation of the related hedged

items.

The U.S. parent company and various other wholly owned subsidiaries have long-term intercompany loan balances denominated in foreign currencies that are remeasured into the U.S. dollar at the current exchange rate in effect at the balance sheet date. Such loan balances are not expected to be settled in the foreseeable future. Any gains and losses relating to these loans are included in the accumulated other comprehensive income (loss), which is reflected as a separate component of stockholders’ deficit.

Cash, Cash Equivalents and Marketable Securities

Cash equivalents consist primarily of commercial paper, money market investments and certificates of deposit. The Company considers all debt instruments purchased with an original maturity of three months or less to be cash equivalents. Marketable securities, have historically consisted of certificates of deposit, commercial paper, asset-backed securities, discount notes, and corporate, municipal, agency and foreign bonds. The Company generally invests in securities that mature within one year from the date of purchase. The Company classifies its cash equivalents and marketable securities as "available for sale" and reports them at fair value, with unrealized gains and losses excluded from earnings and reported as an adjustment to other comprehensive income (loss), which is reflected as a separate component of stockholders' deficit. Amortization or accretion of premium or discount is included in interest income (expense) in the results of operations. Other than those investments held in the Company's deferred compensation plan, the Company held no available for sale securities classified as either cash equivalents or marketable securities at December 31, 2013 or 2012.

Cash equivalents and marketable securities, including money market investments and mutual funds accounted for as trading securities, held in the Company's deferred compensation plan are reported at fair value using quoted prices with the gains and losses included as other income (expense) in the Company's statement of operations. Realized gains and losses from the Company's deferred compensation plans were not material for the years ended December 31, 2013, 2012 and 2011 (Restated).

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, foreign currency contracts and accounts receivable. The Company may place its excess cash in marketable investment grade securities and uses foreign currency contracts to manage certain of its short-term exposures to fluctuations in foreign currency exchange rates. The Company places its cash and cash equivalents and foreign currency contracts with financial institutions that management believes to be of high credit quality, and, generally, there are no significant concentrations in any one issuer of debt securities. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers that make up the Company's customer base and their dispersion across different regions. No individual customer accounted for 10% or more of the Company's net revenues or net accounts receivable in the periods presented.

Foreign Currency Risk

The Company has significant international operations and, therefore, the Company's revenues, earnings, cash flows and financial position are exposed to foreign currency risk from foreign-currency-denominated receivables, payables, sales and expense transactions, and net investments in foreign operations. The Company derives more than half of its revenues from customers outside the United States. This business is, for the most part, transacted through international subsidiaries and generally in the currency of the end-user customers. Therefore, the Company is exposed to the risks that changes in foreign currency could adversely affect its revenues, net income, cash flow and financial position. The Company uses derivatives in the form of foreign currency contracts to manage its short-term exposures to fluctuations in the foreign currency exchange rates that exist as part of its ongoing international business operations. The Company does not enter into any derivative instruments for trading or speculative purposes.

The Company records all foreign currency contract derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as hedges of the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular

risk are considered fair value hedges. Derivatives designated and qualifying as hedges of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. Under hedge accounting, the determination of hedge effectiveness is dependent upon whether the gain or loss on the hedging derivative is highly effective in offsetting the gain or loss in the value of the item being hedged.

Inventories

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market value. Management regularly reviews inventory quantities on hand and writes down inventory to its realizable value to reflect estimated obsolescence or lack of marketability based on assumptions about future inventory demand and market conditions. Inventory in the digital-media market, including the Company's inventory, is subject to rapid technological change or obsolescence; therefore, utilization of existing inventory may differ from the Company's estimates.

Property and Equipment

Property and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful life of the asset. The Company typically depreciates its property and equipment using the following minimum and maximum useful lives:

	Depreciable Life (years)	
	Minimum	Maximum
Computer and video equipment and software	2	5
Manufacturing tooling and testbeds	3	5
Office equipment	3	5
Furniture, fixtures and other	3	8

Leasehold improvements are amortized over the shorter of the useful life of the improvement or the remaining term of the lease. Expenditures for maintenance and repairs are expensed as incurred. Upon retirement or other disposition of assets, the cost and related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is reflected in other income (expense) in the results of operations.

Intangible Assets

Intangible assets consist of acquired and internally developed assets. Acquired intangible assets include customer relationships, developed technology, trade names and non-compete agreements from acquisitions. Internally developed assets consist primarily of various technologies that form the basis of products sold to customers. Costs are capitalized from when technological feasibility is established up until when the product is available for general release. Intangible assets are determined to have either finite or indefinite lives. For finite-lived intangible assets amortization is straight-line over the estimated useful lives of such assets, which are generally two years to twelve years. Straight-line amortization is used because the Company cannot reliably determine a discernible pattern over which the economic benefits would be realized. The Company does not have any indefinite-lived intangible assets. Intangible assets are tested for impairment when events and circumstances indicate there is an impairment. The impairment test involves comparing the sum of undiscounted cash flows to the carrying value as of the measurement date. Impairment occurs when the carrying value of the assets exceeds the sum of undiscounted cash flows. Impairment is then measured as the difference between the carrying value and fair value determined using a discounted cash flow method. In estimating the fair value using a discounted cash flow method, the Company uses assumptions that include forecast revenues, gross margins, operating profit margins, growth rates and long term discount rates, all of which require significant judgment by management. Changes to these assumptions could affect the estimated fair value of the intangible asset and could result in an impairment charge in future.

Discontinued Operations

The Company classifies the assets and liabilities of a business as held-for-sale when management approves and commits to a formal plan of sale and it is probable that the sale will be completed. The carrying value of the net assets of the business held-for-sale are then recorded at the lower of their carrying value or fair market value, less costs to

sell. As discussed in Note I, the Company completed the sales of the consumer audio and consumer video product lines in the third quarter of 2012. The operations of divested businesses have been reflected as discontinued operations for all periods presented in these consolidated financial statements.

Long-Lived Assets

The Company periodically evaluates its long-lived assets for events and circumstances that indicate a potential impairment. A long-lived asset is assessed for impairment when the undiscounted expected future cash flows derived from that asset are less than its carrying value. The cash flows used for this analysis take into consideration a number of factors including past operating results,

budgets and economic projections, market trends and product development cycles. The amount of any impairment would be equal to the difference between the estimated fair value of the asset, based on a discounted cash flow analysis, and its carrying value.

Advertising Expenses

All advertising costs are expensed as incurred and are classified as marketing and selling expenses. Advertising expenses during 2013, 2012 and 2011 (Restated) were $1.8 million, $3.1 million and $3.8 million, respectively.

Research and Development Costs

Research and development costs are expensed as incurred, except for costs that qualify for capitalization. Development costs for software to be sold that are incurred subsequent to the establishment of technological feasibility, but prior to the general release of the product, are capitalized. Upon general release, these costs are amortized using the straight-line method over the expected life of the related products, generally 12 to 36 months. The straight-line method generally results in approximately the same amount of expense as that calculated using the ratio that current period gross product revenues bear to total anticipated gross product revenues. The Company periodically evaluates the assets, considering a number of business and economic factors, to determine if an impairment exits.

Income Taxes

The Company accounts for income taxes using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. The Company records deferred tax assets and liabilities based on the net tax effects of tax credits, operating loss carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes compared to the amounts used for income tax purposes. Deferred tax assets are regularly reviewed for recoverability with consideration for such factors as historical losses, projected future taxable income and the expected timing of the reversals of existing temporary differences. The Company is required to record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on the magnitude of the Company's deferred tax assets at December 31, 2013 and the historical U.S. losses, the Company has determined that the uncertainty regarding the realization of these assets is sufficient to warrant the need for a full valuation allowance against its U.S. net deferred tax assets. The Company has also determined that a valuation allowance is warranted on a portion of its foreign deferred tax assets.

The Company accounts for uncertainty in income taxes recognized in its financial statements by applying a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon examination by the taxing authorities, based on the technical merits of the position. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. The provision for income taxes includes the effects of any resulting tax reserves ("unrecognized tax benefits") that are considered appropriate as well as the related net interest and penalties.

Accounting for Stock-Based Compensation

The Company's stock-based employee compensation plans allow the Company to grant stock awards, options, or other equity-based instruments, or a combination thereof, as part of its overall compensation strategy. For stock-based awards granted, the Company records stock-based compensation cost based on the grant date fair value over the requisite service periods for the individual awards, which generally equal the vesting periods. The vesting of

stock-based award grants may be based on time, performance conditions, market conditions, or a combination of performance or market conditions.

Product Warranties

The Company provides warranties on externally sourced and internally developed hardware. The warranty period for all of the Company's products is generally 90 days to one year, but can extend up to five years depending on the manufacturer's warranty or local law. 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. At the end of each quarter, the Company reevaluates its estimates to assess the adequacy of the recorded warranty liabilities and adjusts the accrued amounts accordingly.

Computation of Net Income Per Share

Net income per share is presented for both basic earnings per share (“Basic EPS”) and diluted earnings per share (“Diluted EPS”). Basic EPS is based on the weighted-average number of common shares outstanding during the period, excluding non-vested restricted stock held by employees. Diluted EPS is based on the weighted-average number of common and potential common shares outstanding during the period. Potential common shares result from the assumed exercise of outstanding stock options and non-vested restricted stock and restricted stock units, the proceeds and remaining unrecorded compensation expense of which are then assumed to have been used to repurchase outstanding common stock using the treasury stock method. For periods when the Company reports a loss, all potential common stock is considered anti-dilutive. For periods when the Company reports net income, potential common shares with combined purchase prices and unamortized compensation costs in excess of the Company’s average common stock fair value for the related period or that are contingently issuable are considered anti-dilutive. 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 (see Notes C and M).

Accounting for Restructuring Plans

The Company records facility-related restructuring charges in accordance with ASC Topic 420, Liabilities: Exit or Disposal Cost Obligations. Based on the Company’s policies for the calculation and payment of severance benefits, the Company accounts for employee-related restructuring charges as an ongoing benefit arrangement in accordance with ASC Topic 712, Compensation - Nonretirement Postemployment Benefits. Restructuring charges and accruals require significant estimates and assumptions, including sub-lease income assumptions. These estimates and assumptions are monitored on at least a quarterly basis for changes in circumstances and any corresponding adjustments to the accrual are recorded in the Company’s statement of operations in the period when such changes are known.

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.

B. 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 in more detail below, the Company has restated its consolidated financial statements for the year ended December 31, 2011. The restatement also affects periods prior to the year ended December 31, 2011, and the cumulative effects of the restatement have been reflected as prior period adjustments to the 2011 opening balance of accumulated deficit.

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, 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 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 goodwill, stock-based compensation and income taxes, which have also been restated in the restated consolidated financial statements.

Goodwill

As a result of the change in the timing of revenue recognition described above and the resulting increase in deferred revenues, the carrying values of the reporting units used in the Company's original goodwill impairment tests were incorrect for each historical period impacted by the restatement of revenue, including those periods in which impairment charges totaling $172.4 million had been recorded. The decrease in carrying value of the reporting units arising from the deferred revenue resulted in negative carrying value and changes to the original step one conclusions that further considerations of goodwill impairment were required under step two, and, as such, no impairment should have been recognized in the periods prior to January 1, 2011. As a result, the carrying value of goodwill was restated to $419.4 million at December 31, 2010. On January 1, 2011, the Company adopted ASU No. 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts ("ASU No. 2010-28"). ASU No. 2010-28 requires companies with negative carrying value of a reporting unit to perform step two of the impairment test when it is more likely than not that a goodwill impairment exists. Upon adoption of ASU No. 2010-28, the Company recorded a full impairment of goodwill through a cumulative-effect adjustment to accumulated deficit. The decline in the fair value of goodwill that caused the impairment was the result of declines in actual and expected cash flows that occurred over a several-year period prior to December 31, 2010.

The following table presents the adjustments to goodwill for the year ended December 31, 2011 (Restated) (in thousands):

Goodwill balance at December 31, 2010, as previously reported	$246,997
Effect of restatement	172,371
Goodwill balance at December 31, 2010, as restated	419,368
Cumulative-effect adjustment due to the adoption of ASU No. 2010-28	(419,368)
Goodwill balance at December 31, 2011, as restated	$—

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 also identified errors in a restructuring charge recorded in the year ended December 31, 2009. The Company originally assumed that a vacated facility could be sublet, reducing the restructuring expense by $2.2 million at that time. Subsequently, management determined that contractual provisions severely limited the Company from executing a sublease, which resulted in no possible sublease income at the time of lease abandonment. The cumulative effect of this error and other restructuring-related adjustments totaling $1.5 million at December 31, 2010 was reflected as an adjustment to the 2011 opening balance of accumulated deficit.

Income Taxes

The Company identified and corrected certain errors related to the accounting for an intercompany loan made between two of its international subsidiaries that occurred during the year ended December 31, 2007. The Company determined that it should have accrued withholding taxes of $3.8 million, and as a result the Company had understated the provision for income taxes in 2007 and income taxes payable reported on its balance sheets for each period subsequent to the transaction. Additionally, as the tax was not withheld and paid to the taxing authority, the Company is subject to interest and penalties on the unpaid balance. The cumulative effect of this error and other adjustments totaling $6.2 million at December 31, 2010 was reflected as an adjustment to the 2011 opening balance of accumulated deficit. The Company also adjusted income taxes as necessary to reflect the impact of the changes in the timing of revenue recognition described above. The Company also identified several errors in the compilation of its deferred tax assets and liabilities. Due to the valuation allowance the Company had recorded against gross deferred tax assets, the adjustments had no net effect on its financial results; however, the corrected balances are reflected in Note O.

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 adjustments of $5.1 million to inventory and adjustments to accrued liabilities, as well as reclassifications of operating expenses to cost of revenues totaling $9.5 million.

Cumulative Effect of Prior Period Adjustments

The following tables present the cumulative effect of the prior period adjustments to stockholders' deficit at December 31, 2010 and 2011 (in thousands):

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)
Balances at December 31, 2010, as previously reported	$423	$1,005,198	$(495,254)	$(91,025)	$ 7,268	$ 426,610
Revenue recognition adjustments	—	—	(897,835)	—	957	(896,878)
Goodwill adjustments	—	—	172,371	—	—	172,371
Restructuring adjustments	—	—	(1,452)	—	—	(1,452)
Income tax adjustments	—	—	(6,280)	—	683	(5,597)
Stock-based compensation adjustments	—	12,204	(12,204)	—	—	—
Other adjustments	—	—	(5,693)	—	303	(5,390)
	$423	$1,017,402	$(1,246,347)	$(91,025)	$ 9,211	$ (310,336)

Balances at December 31, 2010, as restated

	Balances at December 31, 2011, as Previously Reported	Cumulative Effect of Prior Period Adjustments as of December 31, 2010	Stock-Based Compensation Adjustments	Other Adjustments	Balances at December 31, 2011, as Restated
Additional paid-in capital	$1,018,604	$12,204	$ (2,010)	$ —	$1,028,798
Accumulated other comprehensive income	4,807	1,943	—	288	7,038

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 I, the disposition of the consumer business qualified for presentation as a discontinued operation; therefore, these financial statements have been retrospectively adjusted for all periods presented to report the consumer business as a discontinued operation. The Adjustments to Consolidated Statement of Operations and Adjustments to Consolidated Statement of Cash Flows tables below also include a column for discontinued operations to allow reconciliation back to the originally issued financial statements.

Adjustments to Consolidated Statement of Operations

The following table presents the impact of the financial statement adjustments on the Company's previously reported consolidated statement of operations for the year ended December 31, 2011 (in thousands except per share data):

	Year Ended December 31, 2011				
	As Previously Reported	Revenue Restatement Adjustments	Other Restatement Adjustments	Discontinued Operations	As Restated
Net revenues:					
Products	$546,371	$ 270,219	$ —	$ (155,870)	$660,720
Services	131,565	(25,400)	—	—	106,165
Total net revenues	677,936	244,819	—	(155,870)	766,885
Cost of revenues:					
Products	255,735	—	1,153	(68,671)	188,217
Services	62,482	—	8,326	—	70,808
Amortization of intangible assets	2,693	—	—	—	2,693
Total cost of revenues	320,910	—	9,479	(68,671)	261,718
Gross profit	357,026	244,819	(9,479)	(87,199)	505,167
Operating expenses:					
Research and development	118,108	—	252	(7,231)	111,129
Marketing and selling	183,865	—	(9,897)	(10,764)	163,204
General and administrative	58,448	—	(2,419)	(5,297)	50,732
Amortization of intangible assets	8,528	—	—	—	8,528
Restructuring costs, net	8,858	—	(2,324)	—	6,534
Total operating expenses	377,807	—	(14,388)	(23,292)	340,127
Operating (loss) income	(20,781)	244,819	4,909	(63,907)	165,040
Interest income	144	—	(2)	—	142
Interest expense	(2,053)	—	125	—	(1,928)
Other expense, net	(159)	—	—	—	(159)
(Loss) income from continuing operations before income taxes	(22,849)	244,819	5,032	(63,907)	163,095
Provision for income taxes, net	942	—	(307)	—	635
(Loss) income from continuing operations, net of tax	(23,791)	244,819	5,339	(63,907)	162,460
Discontinued operations:					
Income from divested operations	—	—	—	63,907	63,907
Income from discontinued operations	—	—	—	63,907	63,907
Net (loss) income	$(23,791)	$ 244,819	$ 5,339	$ —	$226,367
(Loss) income per common share – basic:					
(Loss) income per share from continuing operations, net of tax – basic	$(0.62)				$4.23
Income per share from discontinued operations – basic	—				1.66
Net (loss) income per common share – basic	$(0.62)				$5.89
(Loss) income per common share – diluted:					
(Loss) income per share from continuing operations, net of tax – diluted	$(0.62)				$4.22
Income per share from discontinued operations – diluted	—				1.67
Net (loss) income per common share – diluted	$(0.62)				$5.87
Weighted-average common shares outstanding – basic	38,435				38,435
Weighted-average common shares outstanding – diluted	38,435				38,534

Adjustments to Consolidated Statement of Cash Flows

The following table presents the impact of the financial statement adjustments on the Company's previously reported consolidated statement of cash flows for the year ended December 31, 2011 (in thousands):

	Year Ended December 31, 2011				
	As Previously Reported	Revenue Restatement Adjustments	Other Restatement Adjustments	Discontinued Operations	As Restated
Cash flows from operating activities:					
Net (loss) income	$(23,791)	244,819	$ 5,339	—	$226,367
Adjustments to reconcile net (loss) income to net cash provided by operating activities:					
Depreciation and amortization	31,983	—	—	—	31,983
Provision for doubtful accounts	1,561	—	(88)	—	1,473
Non-cash provision for restructuring	326	—	—	—	326
Loss on sales of assets	597	—	—	—	597
Gain on disposal of fixed assets	(24)	—	24	—	—
Stock-based compensation expense	14,619	—	(2,010)	—	12,609
Non-cash interest expense	301	—	—	—	301
Foreign currency transaction (gains) losses	(135)	—	1,953	—	1,818
Provision for deferred taxes	(1,658)	—	(336)	—	(1,994)
Changes in operating assets and liabilities					
Accounts receivable	(4,904)	1,353	(253)	—	(3,804)
Inventories	(3,475)	—	158	—	(3,317)
Prepaid expenses and other current assets	(298)	—	75	—	(223)
Accounts payable	(4,769)	—	236	—	(4,533)
Accrued expenses, compensation and benefits and other liabilities	(14,323)	—	(3,113)	—	(17,436)
Income taxes payable	(757)	—	117	—	(640)
Deferred revenues	5,611	(246,172)	1	—	(240,560)
Net cash provided by operating activities	864	—	2,103	—	2,967
Cash flows from investing activities:					
Purchases of property and equipment	(10,771)	—	(24)	—	(10,795)
Capitalized software development costs	—	—	(1,242)	—	(1,242)
Change in other long-term assets	(1,099)	—	944	—	(155)
Net cash used in investing activities	(11,870)	—	(322)	—	(12,192)
Cash flows from financing activities:					
Proceeds from the issuance of common stock under employee stock	2,026	—	1,213	—	3,239
Common stock repurchases for tax withholdings for net settlement of equity awards	—	—	(1,213)	—	(1,213)
Proceeds from revolving credit facilities	21,000	—	—	—	21,000
Payments on revolving credit facilities	(21,000)	—	—	—	(21,000)
Net cash provided by financing activities	2,026	—	—	—	2,026
Effect of exchange rate changes on cash and cash equivalents	(947)	—	(1,781)	—	(2,728)

Net decrease in cash and cash equivalents	(9,927)	—	—	—	(9,927)
Cash and cash equivalents at beginning of period	42,782	—	—	—	42,782
Cash and cash equivalents at end of period	$32,855	$—	$—	$—	$32,855

79

C. NET INCOME PER SHARE

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.

	Year Ended December 31,		
	2013	2012	2011
Options	5,193	6,069	5,987
Non-vested restricted stock units	352	638	494
Anti-dilutive potential common shares	5,545	6,707	6,481

D. FOREIGN CURRENCY CONTRACTS

As a hedge against the foreign exchange exposure of certain forecasted receivables, payables and cash balances of its 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. There are two objectives of the Company’s foreign currency forward-contract program: (1) to offset any foreign currency exchange risk associated with cash receipts expected to be received from the Company’s customers and cash payments expected to be made to the Company’s vendors over the following 30 days and (2) to offset the impact of foreign currency exchange on the Company’s net monetary assets denominated in currencies other than the functional currency of the legal entity. These forward contracts typically mature within 30 days of execution. At December 31, 2013 and 2012, the Company had foreign currency forward contracts outstanding with aggregate notional values of $21.0 million and $23.6 million, respectively, 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. At December 31, 2013 and 2012, the Company had such foreign currency contracts with aggregate notional values of $5.4 million and $5.3 million, respectively. Because these contracts have not been 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 following table sets forth the balance sheet classification and fair values of the Company’s foreign currency contracts at December 31, 2013 and 2012 (in thousands):

Derivatives Not Designated as Hedging Instruments Under Accounting Standards Codification (“ASC”) Topic 815	Balance Sheet Classification	Fair Value at December 31, 2013	Fair Value at December 31, 2012
Financial assets:			
Foreign currency contracts	Other current assets	$59	$157
Financial liabilities:			
Foreign currency contracts	Accrued expenses and other current liabilities	$228	$337

The following table sets forth the net foreign exchange gains and losses recorded as marketing and selling expenses in the Company’s statements of operations during the years ended December 31, 2013, 2012 and 2011 (Restated) that resulted from the gains and losses on Company’s foreign currency contracts not designated as hedging instruments and the revaluation of the related hedged items (in thousands):

Derivatives Not Designated as Hedging Instruments Under ASC Topic 815	Net (Loss) Gain Recorded in Marketing and Selling Expenses		
	2013	2012	2011 (Restated)
Foreign currency contracts	$(187)	$(707)	$525

See Note E 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.

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

		Fair Value Measurements at Reporting Date Using		
	December 31, 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	$ 1,920	$1,271	$649	$—
Foreign currency contracts	59	—	59	—
Financial Liabilities:				
Foreign currency contracts	$ 228	$—	$228	$—

		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 D 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.

F. ACCOUNTS RECEIVABLE

Accounts receivable, net of allowances, consisted of the following at December 31, 2013 and 2012 (in thousands):

	December 31,	
	2013	2012
Accounts receivable	$70,733	$88,933
Less:		
Allowance for doubtful accounts	(1,444)	(1,517)
Allowance for sales returns and rebates	(12,519)	(19,460)
Total	$56,770	$67,956

The accounts receivable balances at December 31, 2013 and 2012, exclude $8.6 million and $7.6 million, respectively, for large solution sales and certain distributor sales that were invoiced, but for which revenues had not been recognized and payments were not due.

G. INVENTORIES

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

	December 31,	
	2013	2012
Raw materials	$10,142	$11,095
Work in process	338	293
Finished goods	49,642	57,755
Total	$60,122	$69,143

At December 31, 2013 and 2012, finished goods inventory included $3.6 million and $3.7 million, respectively, associated with products shipped to customers or deferred labor costs for arrangements where revenue recognition had not yet commenced.

H. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2013 and 2012 (in thousands):

	December 31,	
	2013	2012
Computer and video equipment and software	$107,464	$103,209
Manufacturing tooling and testbeds	2,548	1,611
Office equipment	4,737	4,746
Furniture, fixtures and other	10,909	11,122
Leasehold improvements	33,310	32,080
	158,968	152,768
Less: Accumulated depreciation and amortization	123,782	111,327
Total	$35,186	$41,441

Depreciation and amortization expense related to property and equipment was $17.8 million, $19.8 million and $19.5 million for the years ended December 31, 2013, 2012 and 2011 (Restated), respectively.

I. 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 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 in 2012, with the remaining proceeds held in escrow until a final release date that occurred 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 2012, with the remaining proceeds held in escrow until a final release date that occurred 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 income from discontinued operations for the years ended December 31, 2012 and 2011 (Restated) (in thousands):

	2012	2011 (Restated)
Net revenues	$46,101	$155,870
Costs of revenues	33,265	68,671
Gross profit	12,836	87,199
Operating expenses	5,004	23,292
Income from discontinued operations before income taxes	7,832	63,907
Gain on divestiture of consumer business	37,972	—
Income from discontinued operations	$45,804	$63,907

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

	December 31, 2013			2012		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Completed technologies and patents	$52,711	$(52,659)	$52	$52,720	$(51,171)	$1,549
Customer relationships	49,627	(45,557)	4,070	49,543	(42,828)	6,715
Trade names	5,976	(5,976)	—	5,970	(5,970)	—
Capitalized software costs	5,944	(5,806)	138	5,938	(4,985)	953
Total	$114,258	$(109,998)	$4,260	$114,171	$(104,954)	$9,217

Amortization expense related to intangible assets in the aggregate was $4.9 million, $7.7 million and $12.4 million for the years ended December 31, 2013, 2012 and 2011 (Restated), respectively. The Company expects amortization of intangible assets to be approximately $1.8 million in 2014, $1.5 million in 2015 and $1.0 million in 2016.

K. OTHER LONG-TERM LIABILITIES

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

	December 31,	
	2013	2012
Long-term deferred rent	$8,361	$8,923
Long-term accrued restructuring	2,335	5,119
Long-term deferred compensation	3,890	3,936
Total	$14,586	$17,978

L. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

The Company leases its office space and certain equipment under non-cancelable operating leases. The future minimum lease commitments under these non-cancelable leases at December 31, 2013 were as follows (in thousands):

Year Ending December 31,	
2014	$20,183
2015	13,462
2016	12,503
2017	11,301
2018	9,126
Thereafter	18,500
Total	$85,075

Included in the operating lease commitments above are obligations under leases for which the Company has vacated the underlying facilities as part of various restructuring plans. These leases expire at various dates through 2021 and represent an aggregate obligation of $10.3 million through 2021. The Company has restructuring accruals of $6.1 million at December 31, 2013, which represents the difference between this aggregate future obligation and expected future sublease income under actual or estimated potential sublease agreements, on a net present value basis, as well as other facilities-related obligations. The Company received no sublease income during the years ended December 31, 2013, 2012 or 2011.

The Company's leases for corporate office space in Burlington, Massachusetts, which expire in May 2020, contain renewal options to extend the respective terms of each lease for up to two additional five-year periods. The Company has some leases for office space that have early termination options, which, if exercised by the Company, would result in penalties of $0.7 million in the aggregate. The future minimum lease commitments above include the Company's obligations through the original lease terms and do not include these penalties.

The accompanying consolidated results of operations reflect rent expense on a straight-line basis over the term of the leases. Total expense under operating leases was $16.3 million, $18.1 million and $20.2 million for the years ended December 31, 2013, 2012 and 2011 (Restated), respectively.

Other Commitments

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 December 31, 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 December 31, 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 also has additional letters of credit totaling $2.4 million that support its ongoing operations. These letters of credit have various terms and expire during 2014 and 2015. Some of the letters of credit may automatically renew based on the terms of the underlying agreements.

Purchase Commitments and Sole-Source Suppliers

At December 31, 2013, the Company had entered into purchase commitments for certain inventory and other goods and services used in its normal operations. The purchase commitments covered by these agreements are generally for a period of less than one year and in the aggregate total approximately $27.6 million.

The Company depends on sole-source suppliers for certain key hardware components of its products. Although the Company has procedures in place to mitigate the risks associated with its sole-sourced suppliers, the Company cannot be certain that it will be able to obtain sole-sourced components or finished goods from alternative suppliers or that it will be able to do so on commercially reasonable terms without a material impact on its results of operations or financial position. The Company procures product components and builds inventory based on forecasts of product life cycle and customer demand. If the Company is unable to provide accurate forecasts or manage inventory levels in response to shifts in customer demand, the Company may have insufficient, excess or obsolete product inventory.

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 December 31, 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 December 31, 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 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 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 years ended December 31, 2013, 2012 and 2011 (in thousands):

Accrual balance at December 31, 2010 (Restated)	$4,849	
Accruals for product warranties (Restated)	8,544	
Cost of warranty claims (Restated)	(8,293	)
Accrual balance at December 31, 2011 (Restated)	5,100	
Accruals for product warranties	7,737	
Cost of warranty claims	(7,854	)
Allocation to divested consumer business	(507	)
Accrual balance at December 31, 2012	4,476	
Accruals for product warranties	5,346	

Cost of warranty claims	(6,321)
Accrual balance at December 31, 2013	$3,501

87

M. CAPITAL STOCK

Preferred Stock

The Company has authorized up to one million shares of preferred stock, $0.01 par value per share, for issuance. Each series of preferred stock shall have such rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as may be determined by the Company's board of directors (the "Board").

Rights Agreement

On January 6, 2014, the Company's Board declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of common stock, par value $0.01 per share, of the Company, to purchase one ten-thousandth of a share of newly designated Series A Junior Participating Preferred Stock, par value $0.01 per share, of the Company (the "Preferred Stock"), at a price of $40.00 per one ten-thousandth of a share of Preferred Stock, subject to adjustment as provided in the Rights Agreement described below. Stockholders of record at the close of business on January 17, 2014 (the "Record Date") received the dividend. The description and terms of the Rights are set forth in a Rights Agreement, dated as of January 6, 2014, as the same may be amended from time to time (the "Rights Agreement"), between the Company and Computershare Trust Company N.A, as Rights Agent.

The Rights Agreement became effective on January 6, 2014 (the "Effective Date"). Following the Effective Date, Rights will be issued in respect of all shares of the Company's common stock issued after the Record Date and, subject to the terms described in the Rights Agreement, prior to the earliest of the Distribution Date (as defined in the Rights Agreement), the redemption of the Rights or the expiration of the Rights. A Distribution Date will occur upon the earlier of (i) 10 business days (or such later date as the Board shall determine) following a public announcement by the Company that a person or group of affiliated or associated persons (an "Acquiring Person") has acquired beneficial ownership of 15% or more of the outstanding shares of common stock, other than as a result of repurchases of stock by the Company, certain inadvertent actions by institutional or certain other stockholders or beneficial ownership by certain Exempt Persons or (ii) 10 business days (or such later date as the Board shall determine) following the commencement of a tender offer or exchange offer that would result in a person or group becoming an Acquiring Person. An "Exempt Person" is any person or group which beneficially owned 15% or more of the common stock at the time of public announcement of the Rights Agreement unless and until such person or group acquires beneficial ownership of additional shares of common stock representing one percent or more of the Company's common stock then outstanding.

The Rights will expire at the next annual meeting of the Company's stockholders, unless the Rights are earlier redeemed or exchanged by the Company, in each case as defined in the Rights Agreement.

Common Stock Repurchases

In April 2007, the Company's Board approved a stock repurchase program that authorized the Company to repurchase up to $100 million of the Company's common stock through transactions on the open market, in block trades or otherwise. In February 2008, the Company's Board of Directors approved a $100 million increase in the authorized funds for the repurchase of the Company's common stock. At December 31, 2013, there was $80.3 million available for future stock repurchases under the program. This stock repurchase program has no expiration date. During the years ended December 31, 2013, 2012 and 2011, no shares were repurchased under this program.

Under some of the Company's equity compensation plans, employees have the option or may be required to satisfy minimum withholding tax obligations by tendering to the Company a portion of the common stock received under the

award. During the year ended December 31, 2011 (Restated), the Company received approximately 9,802 shares of its common stock in exchange for $0.1 million of minimum employee withholding liabilities paid by the Company. During the years ended December 31, 2013 and 2012, no such shares were repurchased.

Stock Incentive Plans

Under its stock incentive plans, the Company may grant stock awards or options to purchase the Company's common stock to employees, officers, directors (subject to certain restrictions) and consultants, generally at the market price on the date of grant. Current option grants become exercisable over various periods, typically three to four years for employees and one year for non-employee directors, and have a maximum term of seven years. Restricted stock and restricted stock unit awards with time-based vesting typically vest over three to four years. Restricted stock unit awards with vesting based on performance conditions, market conditions, or a combination of performance or market conditions typically have a maximum term of approximately eleven years. Shares available for issuance under the Company's Amended and Restated 2005 Stock Incentive Plan totaled 3,333,219 at December 31, 2013, including 523,233 shares that may alternatively be issued as awards of restricted stock or restricted stock units.

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock option grants with time-based vesting. The Black-Scholes model relies on a number of key assumptions to calculate estimated fair values. The assumed dividend yield of zero is based on the fact that the Company has never paid cash dividends and has no present intention to pay cash dividends and our current credit agreement precludes us from paying dividends. The expected stock-price volatility assumption is based on recent (six-month trailing) implied volatility calculations. These calculations are performed on exchange traded options of the Company's common stock, based on the implied volatility of long-term (9- to 39-month term) exchange-traded options. The Company believes that using a forward-looking market-driven volatility assumption will result in the best estimate of expected volatility. The assumed risk-free interest rate is the U.S. Treasury security rate with a term equal to the expected life of the option. The assumed expected life is based on company-specific historical experience considering the exercise behavior of past grants and models the pattern of aggregate exercises.

The fair value of restricted stock and restricted stock unit awards with time-based vesting is based on the intrinsic value of the awards at the date of grant, as the awards have a purchase price of $0.01 per share.

The Company also issues stock option grants or restricted stock unit awards with vesting based on market conditions, specifically the Company's stock price; performance conditions, generally the Company's return on equity or operating margin; or a combination of performance or market conditions. The fair values and derived service periods for all grants that include vesting based on market conditions are estimated using the Monte Carlo valuation method. For stock option grants that include vesting based on performance conditions, the fair values are estimated using the Black-Scholes option pricing model. For restricted stock unit awards that include vesting based on performance conditions, the fair values are estimated based on the intrinsic values of the awards at the date of grant, as the awards have a purchase price of $0.01 per share. For stock option grants and restricted stock unit awards with vesting based on a combination of performance or market conditions, compensation costs are recorded based on the higher estimated grant-date fair value for each vesting tranche and factored for the estimated probability of achieving the performance goals. For each stock option grant and restricted stock award with vesting based on a combination of performance or market conditions where vesting will occur if either condition is met, the related compensation costs are recognized over the shorter of the derived service period or implicit service period.

Information with respect to options granted under all stock option plans for the year ended December 31, 2013 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, 2013	4,099,144	1,300,155	5,399,299	$17.68		
Granted	208,000	1,088,000	1,296,000	$7.85		
Exercised	—	—	—	$—		
Forfeited or canceled	(1,069,229)	(899,655)	(1,968,884)	$19.60		
Options outstanding at December 31, 2013	3,237,915	1,488,500	4,726,415	$14.18	3.67	$411
Options vested at December 31, 2013 or expected to vest			4,626,329	$14.24	3.66	$402
Options exercisable at December 31, 2013			2,488,278	$17.36	2.44	$31

The performance-based stock options outstanding at December 31, 2013 will vest either upon the earlier of certain performance conditions being met or upon the Company's stock price reaching certain amounts as defined in the agreements, or solely upon the achievement of a performance condition. The performance conditions are based upon the achievement of specified return on equity or

operating margins, and the options are probable of vesting as of December 31, 2013. The stock options, however, will not become exercisable until the Company's Board votes that the established performance conditions have been met. As of December 31, 2013, none of these performance-based options are exercisable.

The following table sets forth the weighted-average key assumptions and fair value results for stock options granted during the years ended December 31, 2013, 2012 and 2011 (Restated):

	Year Ended December 31,		
	2013	2012	2011 (Restated)
Expected dividend yield	0.00%	0.00%	0.00%
Risk-free interest rate	0.87%	0.94%	2.03%
Expected volatility	50.1%	52.8%	41.4%
Expected life (in years)	4.68	4.56	4.48
Weighted-average fair value of options granted (per share)	$3.33	$4.89	$7.54

During the years ended December 31, 2013 and 2012, the cash received from and the aggregate intrinsic value of stock options exercised was not material. The aggregate intrinsic value of stock options exercised during the year ended December 31, 2011 (Restated) was approximately $1.1 million, and the cash received from such exercises was approximately $2.2 million. The Company did not realize a material tax benefit from the tax deductions for stock option exercises during the years ended December 31, 2013, 2012 or 2011 (Restated).

The fair value of restricted stock unit awards with time-based vesting is based on the intrinsic value of the awards at the date of grant.

Information with respect to non-vested restricted stock units for the year ended December 31, 2013 was as follows:

	Non-Vested Restricted Stock Units					
	Time-Based Shares	Performance-Based Shares	Total Shares	Weighted-Average Grant-Date Fair Value	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Non-vested at January 1, 2013	261,406	401,750	663,156	$15.73		
Granted	175,000	10,000	185,000	$7.84		
Vested	(155,286)	—	(155,286)	$14.04		
Forfeited	(75,887)	(294,250)	(370,137)	$16.36		
Non-vested at December 31, 2013	205,233	117,500	322,733	$11.30	3.91	$2,627
Expected to vest			297,751	$11.53	4.07	$2,424

The performance-based restricted stock units outstanding at December 31, 2013 will vest either upon the earlier of certain performance conditions being met or upon the Company's stock price reaching certain amounts as defined in the agreements, or solely upon the achievement of a performance condition. The performance conditions are based upon the achievement of specified return on equity or operating margins, and the restricted stock units are probable of vesting as of December 31, 2013. The restricted stock units, however, will not become exercisable until the Company's Board votes that the established performance conditions have been met. As of December 31, 2013, none of these performance-based restricted stock units are vested.

The following table sets forth the weighted-average key assumptions for restricted stock units with vesting based on market conditions or a combination of performance or market conditions granted during the year ended December 31,

2011 (Restated). There were no grants of restricted stock units with vesting based on market conditions or a combination of performance or market conditions during the years ended December 31, 2013 and 2012.

	Year Ended December 31, 2011 (Restated)
Expected dividend yield	0.00%
Risk-free interest rate	3.90%
Expected volatility	41.5%
Expected life (in years)	3.04

The weighted-average grant date fair value of restricted stock units granted during the years ended December 31, 2012 and 2011 (Restated) was $10.95 and $21.36, respectively. The total fair value of restricted stock units vested during the years ended December 31, 2013, 2012, and 2011 (Restated) was $1.1 million, $2.3 million, and $4.2 million, respectively.

Employee Stock Purchase Plan

The Company's Second Amended and Restated 1996 Employee Stock Purchase Plan (the "ESPP") offers the Company's shares for purchase at a price equal to 85% of the closing price on the applicable offering period termination date. Shares issued under the ESPP are considered compensatory. Accordingly, the Company is required to measure fair value and record compensation expense for share purchase rights granted under the ESPP. The Company last issued shares under the ESPP on January 31, 2013. On March 8, 2013, participation in the ESPP was suspended as a result of the restatement of the Company's financial statements and its delays in financial reporting.

The Company uses the Black-Scholes option pricing model to calculate the fair value of shares issued under the ESPP. The Black-Scholes model relies on a number of key assumptions to calculate estimated fair values. The following table sets forth the weighted-average key assumptions and fair value results for shares issued under the ESPP during the years ended December 31, 2013, 2012 and 2011 (Restated):

	Year Ended December 31,		
	2013	2012	2011 (Restated)
Expected dividend yield	0.00%	0.00%	0.00%
Risk-free interest rate	0.09%	0.08%	0.24%
Expected volatility	51.0%	51.5%	47.2%
Expected life (in years)	0.25	0.25	0.25
Weighted-average fair value of shares issued (per share)	$1.00	$1.30	$1.88

The following table sets forth the quantities and average prices of shares issued under the ESPP for the years ended December 31, 2013, 2012 and 2011 (Restated):

	Year Ended December 31,		
	2013	2012	2011 (Restated)
Shares issued under the ESPP	27,936	142,658	124,219
Average price of shares issued	$6.29	$6.96	$9.71

A total of 441,913 shares remained available for issuance under the ESPP at December 31, 2013.

Stock-Based Compensation Expense

The Company estimates forfeiture rates at the time awards are made based on historical and estimated future turnover rates and applies these rates in the calculation of estimated compensation cost. The estimation of forfeiture rates includes a quarterly review of historical turnover rates and an update of the estimated forfeiture rates to be applied to employee classes for the calculation of stock-based compensation. Forfeiture rates for the calculation of stock-based compensation were estimated and applied based on three classes, non-employee directors, executive management staff and other employees. At December 31, 2013 and 2012, the Company's

annualized estimated forfeiture rates were 0% for non-employee director awards, 10% for executive management staff and 15% for other employee awards. Then-current estimated forfeiture rates are applied quarterly to all outstanding stock options and non-vested restricted stock awards, which may result in a revised estimate of compensation costs related to these stock-based grants.

Stock-based compensation was included in the following captions in the Company's consolidated statements of operations for the years ended December 31, 2013, 2012 and 2011 (Restated), respectively (in thousands):

	Year Ended December 31,		
	2013	2012	2011 (Restated)
Cost of products revenues	$360	$410	$487
Cost of services revenues	436	582	714
Research and development expenses	582	986	1,638
Marketing and selling expenses	1,778	3,754	4,306
General and administrative expenses	3,761	5,700	5,464
Total	$6,917	$11,432	$12,609

Included in stock-based compensation expense for the years ended December 31, 2013, 2012, and 2011 (Restated) was compensation related to performance-based stock options and restricted stock units totaling $0.9 million, $2.7 million and $2.1 million, respectively, for awards that are probable of vesting.

As a result of the 2012 restructuring plan, the vesting of 121,875 stock option shares and 33,438 restricted stock unit shares were accelerated as set forth in the employment agreements for two of the Company's former executives, resulting in $1.1 million in additional stock-based compensation recorded as marketing and selling expense during the year ended December 31, 2012. Similarly, as a result of our 2013 management transition, the vesting of 303,229 stock option shares and 72,267 restricted stock unit shares were accelerated as set forth in the employment agreements for four of the Company's former executives, resulting in $2.2 million in additional stock-based compensation recorded primarily as general and administrative expense during the first quarter of the year ended December 31, 2013.

At December 31, 2013, there was $6.8 million of total unrecognized compensation cost, before forfeitures, related to non-vested stock-based compensation awards granted under the Company's stock-based compensation plans. The Company expects this amount to be amortized approximately as follows: $4.5 million in 2014, $1.6 million in 2015 and $0.7 million in 2016. At December 31, 2013, the weighted-average recognition period of the unrecognized compensation cost was approximately 1.05 years.

If factors change and the Company employs different assumptions to estimate stock-based compensation expense in future periods, including changes in the probability of achieving performance conditions, or the Company decides to use a different valuation model, the stock-based compensation expense recognized in future periods may differ significantly from what has been recorded in the current period and could materially affect the Company's operating income, net income and earnings per share. It may also result in a lack of comparability with other companies that use different models, methods and assumptions.

N. EMPLOYEE BENEFIT PLANS

Employee Benefit Plans

The Company has a defined contribution employee benefit plan under Section 401(k) of the U.S. Internal Revenue Code of 1986, as amended (the "Internal Revenue Code") covering substantially all U.S. employees. The 401(k) plan

allows employees to make contributions up to a specified percentage of their compensation. The Company may, upon resolution by the Company's board of directors, make discretionary contributions to the plan. The Company's contributions to the plan totaled $2.2 million, $2.5 million and $2.9 million in 2013, 2012 and 2011 (Restated), respectively.

In addition, the Company has various retirement and post-employment plans covering certain international employees. Certain of the plans allow the Company to match employee contributions up to a specified percentage as defined by the plans. The Company's contributions to these plans totaled $1.2 million, $1.4 million and $1.4 million in 2013, 2012 and 2011 (Restated), respectively.

Deferred Compensation Plans

The Company's board of directors has approved a nonqualified deferred compensation plan (the "Deferred Plan"). The Deferred Plan covers senior management and members of the Board. The plan provides for a trust to which participants can contribute varying percentages or amounts of eligible compensation for deferred payment. Payouts are generally made upon termination of employment with the Company. The benefits payable under the Deferred Plan represent an unfunded and unsecured contractual obligation of the Company to pay the value of the deferred compensation in the future, adjusted to reflect the trust's investment performance. The assets of the trust, as well as the corresponding obligations, were approximately $1.3 million and $1.1 million at December 31, 2013 and 2012, respectively, and were recorded in "other current assets" and "accrued compensation and benefits" at those dates. In November 2013, the Board determined not to offer senior management or the members of the Board the opportunity to participate in the Deferred Plan in 2014 due to the restatement of the Company's financial statements and its delays in financial reporting.

In connection with the acquisition of a business in 2010, the Company assumed the assets and liabilities of a deferred compensation arrangement for a single individual in Germany. The arrangement represents a contractual obligation of the Company to pay a fixed euro amount for a period specified in the contract. At December 31, 2013 and 2012, the Company's assets and liabilities related to the arrangement consisted of assets recorded in "other long-term assets" of $0.6 million for each year, representing the value of related insurance contracts, and liabilities recorded as long-term liabilities of $3.9 million for each year, representing the actuarial present value of the estimated benefits to be paid under the contract.

O. INCOME TAXES

Income from continuing operations before income taxes and the components of the income tax provision consisted of the following for the years ended December 31, 2013, 2012 and 2011 (Restated) (in thousands):

	Year Ended December 31,		
	2013	2012	2011 (Restated)
Income (loss) from continuing operations before income taxes:			
United States	$(16,414)	$19,198	$121,632
Foreign	40,506	31,938	41,463
Total income from continuing operations before income taxes	$24,092	$51,136	$163,095
Provision for (benefit from) income taxes:			
Current tax expense (benefit):			
Federal	$(104)	$(750)	$406
State	114	102	48
Foreign benefit of net operating losses	(170)	(154)	(629)
Other foreign	2,369	5,251	2,804
Total current tax expense	2,209	4,449	2,629
Deferred tax expense (benefit):			
Other foreign	730	(400)	(1,994)
Total deferred tax expense (benefit)	730	(400)	(1,994)
Total provision for income taxes	$2,939	$4,049	$635

The cumulative amount of undistributed earnings of foreign subsidiaries, which is intended to be indefinitely reinvested and for which U.S. income taxes have not been provided, totaled approximately $35 million at December 31, 2013. The Company does not have any plans to repatriate these earnings because the underlying cash

will be used to fund the ongoing operations of the foreign subsidiaries. The additional taxes that might be payable upon repatriation of foreign earnings are not significant.

Net deferred tax assets (liabilities) consisted of the following at December 31, 2013 and 2012 (in thousands):

	December 31,	
	2013	2012
Deferred tax assets:		
Tax credit and net operating loss carryforwards	$244,379	$217,549
Allowances for bad debts	277	1,010
Difference in accounting for:		
Revenues	98,838	116,725
Costs and expenses	29,784	33,066
Inventories	9,209	9,774
Acquired intangible assets	17,726	24,090
Gross deferred tax assets	400,213	402,214
Valuation allowance	(396,143)	(395,645)
Deferred tax assets after valuation allowance	4,070	6,569
Deferred tax liabilities:		
Difference in accounting for:		
Revenues	—	(2,959)
Costs and expenses	(1,712)	(623)
Acquired intangible assets	—	(492)
Gross deferred tax liabilities	(1,712)	(4,074)
Net deferred tax assets	$2,358	$2,495
Recorded as:		
Current deferred tax assets, net	522	586
Long-term deferred tax assets, net	2,415	2,825
Current deferred tax liabilities, net	(14)	(203)
Long-term deferred tax liabilities, net	(565)	(713)
Net deferred tax assets	$2,358	$2,495

Deferred tax assets and liabilities reflect the net tax effects of the tax credits and net operating loss carryforwards and the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The ultimate realization of the net deferred tax assets is dependent upon the generation of sufficient future taxable income in the applicable tax jurisdictions. Based on the level of the deferred tax assets at December 31, 2013 and 2012 and the level of historical U.S. losses, management has determined that the uncertainty regarding the realization of these assets warranted a full valuation allowance at December 31, 2013 and 2012. The change in the valuation allowance totaled $0.5 million and $(35.3) million and $(29.6) million for the years ended December 31, 2013, 2012 and 2011, respectively.

For U.S. federal and state income tax purposes at December 31, 2013, the Company had tax credit carryforwards of $48.1 million, which will expire between 2016 and 2033, and net operating loss carryforwards of $573.6 million, which will expire between 2019 and 2033. The federal net operating loss and tax credit amounts are subject to annual limitations under Section 382 change of ownership rules of the Internal Revenue Code. The Company completed an assessment at December 31, 2013 regarding whether there may have been a Section 382 ownership change and concluded that it is more likely than not that none of the Company’s net operating loss and tax credit amounts are subject to any Section 382 limitation.

Additionally, the Company has foreign net operating loss carryforwards of $41.4 million and tax credit carryforwards of $3.9 million that begin to expire in 2019. The Company has determined there is uncertainty regarding the realization of a portion of these assets and has recorded a valuation allowance against $36.5 million of net operating losses and $3.9 million of tax credits at December 31, 2013.

94

The Company's assessment of the valuation allowance on the U.S. and foreign deferred tax assets could change in the future based on its levels of pre-tax income and other tax related adjustments. Removal of the valuation allowance in whole or in part would result in a non-cash reduction in income tax expense during the period of removal.

Excluded from the above deferred tax schedule at December 31, 2013 are tax assets totaling $33.0 million resulting from the exercise of employee stock options, because recognition of these assets will occur upon utilization of these deferred tax assets to reduce taxes payable and will result in a credit to additional paid-in capital within stockholders' equity rather than the provision for income taxes.

The following table sets forth a reconciliation of the Company's income tax provision (benefit) to the statutory U.S. federal tax rate for the years ended December 31, 2013, 2012 and 2011 (Restated):

	Year Ended December 31,					
	2013		2012		2011 (Restated)	
Statutory rate	35.0	%	35.0	%	35.0	%
Tax credits	(6.2	)%	(1.2	)%	(0.6	)%
Foreign operations	(43.8	)%	(12.7	)%	(8.8	)%
Non-deductible expenses and other	2.1	%	1.4	%	0.9	%
Increase (decrease) in valuation allowance	25.1	%	(14.6	)%	(26.1	)%
Effective tax rate	12.2	%	7.9	%	0.4	%

A tax position must be more likely than not to be sustained before being recognized in the financial statements. It also requires the accrual of interest and penalties as applicable on unrecognized tax positions. The Company is disclosing unrecognized tax benefits primarily related to the foreign tax implications of the restatement adjustments. The unrecognized tax benefits did not have an impact on the effective tax rate because the Company maintains a full valuation allowance on the related loss carryforwards. At December 31, 2011 (Restated), the Company's unrecognized tax benefits and related accrued interest and penalties totaled $20.2 million, of which $0.9 million would affect the Company's income tax provision and effective tax rate if recognized. At December 31, 2012, the Company's unrecognized tax benefits and related accrued interest and penalties totaled $22.6 million, of which $0.9 million would affect the Company's effective tax rate if recognized. At December 31, 2013, the Company's unrecognized tax benefits and related accrued interest and penalties totaled $24.7 million, of which $0.8 million would affect the Company's income tax provision and effective tax rate if recognized. The foreign tax authorities are aware of the uncertain tax position related to the restatement adjustments and the Company believes that it is reasonably possible that the foreign tax authorities will conclude on this matter by December 31, 2014 resulting in a decrease of up to $23.9 million in unrecognized tax benefits and a change in deferred tax assets that carry a full valuation allowance.

The following table sets forth a reconciliation of the beginning and ending amounts of unrecognized tax benefits, excluding the impact of interest and penalties, for the years ended December 31, 2013, 2012 and 2011 (Restated) (in thousands):

Unrecognized tax benefits at January 1, 2011 (Restated)	$18,424	
Increases for tax positions taken during a prior period	3,056	
Decreases related to settlements	(900	)
Decreases related to the lapse of applicable statutes of limitations	(400	)
Unrecognized tax benefits at December 31, 2011 (Restated)	20,180	
Increases for tax positions taken during a prior period	3,198	
Decreases related to the lapse of applicable statutes of limitations	(749	)
Unrecognized tax benefits at December 31, 2012	22,629	
Increases for tax positions taken during a prior period	2,205	

Decreases related to the lapse of applicable statutes of limitations	(105)
Unrecognized tax benefits at December 31, 2013	$24,729

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. Accrued interest and penalties related to uncertain tax positions at December 31, 2013 and 2012 were not material.

The tax years 2006 through 2013 remain open to examination by taxing authorities in the jurisdictions in which the Company operates.

On September 13, 2013, the U.S. Treasury Department released final income tax regulations on the deduction and capitalization of expenditures related to tangible property. These final regulations apply to tax years beginning on or after January 1, 2014. The tangible property regulations will require the Company to make tax accounting method changes as of January 1, 2014; however, management does not anticipate the impact of these changes to be material to the Company's consolidated financial position or results of operations.

P. RESTRUCTURING COSTS AND ACCRUALS

2013 Restructuring Actions

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 $1.7 million in 2013.

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

2012 Restructuring Plan

In June 2012, the Company committed to a series of strategic actions (the "2012 Plan") to focus on its 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, the abandonment of one of the Company's facilities in Burlington, Massachusetts and the 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 during 2012.

During 2013, the Company recorded $0.1 million in additional severance costs and revisions totaling $1.8 million resulting from sublease assumption changes and other costs related to the abandoned facilities under the 2012 Plan. The Company substantially completed all actions under the 2012 Plan prior to December 31, 2012.

2011 Restructuring Plan

In October 2011, the Company committed to a restructuring plan (the "2011 Plan") intended to improve operational efficiencies. Actions under the 2011 Plan included the elimination of approximately 210 positions and the closure of the Company's facility in Irwindale, California. During 2011, the Company recorded $8.9 million related to severance costs and $0.2 million related to the closure of the Irwindale facility. During 2012, the Company recorded restructuring recoveries of $0.3 million as a result of revised severance estimates. There is no remaining accrual balance related to this plan at December 31, 2013, and no further restructuring actions are anticipated under this plan.

2010 Restructuring Plans

In December 2010, the Company initiated a worldwide restructuring plan (the "2010 Plan") designed to better align financial and human resources in accordance with its strategic plans. During 2011, the Company recorded restructuring expense recoveries of $3.2 million as a result of revised severance estimates, as well as $0.7 million in additional costs related to the closure of a facility in Germany. During 2012, the Company recorded revisions totaling $0.7 million as a result of sublease assumption changes for the partial abandonment of a facility in Daly City, California, under the 2010 Plan. The remaining accrual balance of $0.5 million at December 31, 2013 is related to the closure of part of the Company's Daly City, California facility. No further restructuring actions are anticipated under this plan.

2008 Restructuring Plans

In October 2008, the Company initiated a company-wide restructuring plan (the "2008 Plan"). During 2012, the Company recorded revisions totaling $1.8 million as a result of sublease assumption changes for the partial abandonment of a facility in Daly City, California, under the 2008 Plan. The remaining accrual balance of $2.2 million at December 31, 2013 is related to the closure of part of the Company's Daly City, California and Dublin, Ireland facilities. No further restructuring actions are anticipated under this plan.

Restructuring Summary

The following table sets forth the activity in the restructuring accruals for the years ended December 31, 2013, 2012 and 2011 (Restated) (in thousands):

	Non-Acquisition-Related Restructuring Liabilities		Acquisition-Related Restructuring Liabilities		
	Employee-Related	Facilities-Related & Other	Employee-Related	Facilities-Related	Total
Accrual balance at January 1, 2011 (Restated)	$11,194	$9,150	$202	$828	$21,374
New restructuring charges – operating expenses	9,873	998	—	125	10,996
Revisions of estimated liabilities	(4,158)	(251)	(30)	(23)	(4,462)
Accretion	—	226	—	9	235
Cash payments for employee-related charges	(13,209)	—	(178)	—	(13,387)
Cash payments for facilities	—	(3,394)	—	(425)	(3,819)
Non-cash write-offs	—	(200)	—	(126)	(326)
Foreign exchange impact on ending balance	345	(68)	6	2	285
Accrual balance at December 31, 2011 (Restated)	4,045	6,461	—	390	10,896
New restructuring charges – operating expenses	14,751	8,081	—	—	22,832
Revisions of estimated liabilities	(841)	2,229	—	618	2,006
Accretion	—	382	—	22	404
Cash payments for employee-related charges	(14,082)	—	—	—	(14,082)
Cash payments for facilities	—	(4,893)	—	(435)	(5,328)
Non-cash write-offs	—	(1,459)	—	—	(1,459)
Foreign exchange impact on ending balance	425	37	—	—	462
Accrual balance at December 31, 2012	4,298	10,838	—	595	15,731
New restructuring charges – operating expenses	3,539		—	—	3,539
Revisions of estimated liabilities	50	2,060	—	(279)	1,831
Accretion	—	586	—	26	612
Cash payments for employee-related charges	(5,469)	—	—	—	(5,469)
Cash payments for facilities	—	(7,394)	—	(342)	(7,736)
Non-cash write-offs	—	—	—	—	—
Foreign exchange impact on ending balance	(19)	12	—	—	(7)
Accrual balance at December 31, 2013	$2,399	$6,102	$—	$—	$8,501

The employee-related accruals at December 31, 2013 and 2012 represent severance and outplacement costs to former employees that will be paid out during the year ended December 31, 2014, and are, therefore, included in the caption "accrued expenses and other current liabilities" in the Company's consolidated balance sheet at December 31, 2013 and 2012.

The facilities-related accruals at December 31, 2013 and 2012 represent contractual lease payments, net of estimated sublease income, on space vacated as part of the Company's restructuring actions. The leases, and payments against the amounts accrued, extend through 2021 unless the Company is able to negotiate earlier terminations. Of the total facilities-related accruals, $3.8 million was

included in the caption "accrued expenses and other current liabilities" and $2.3 million was included in the caption "other long-term liabilities" in the Company's consolidated balance sheet at December 31, 2013. At December 31, 2012, $6.3 million was included in the caption "accrued expenses and other current liabilities" and $5.1 million was included in the caption "other long-term liabilities."

Q. SEGMENT INFORMATION

The Company provides digital media content-creation products and solutions for film, video, audio and broadcast professionals, as well as artists and musicians, which the Company classifies as two types, video and audio. The Company also classifies all its maintenance, professional services and training revenues as services revenues. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's evaluation of the discrete financial information that is regularly reviewed by the chief operating decision makers determined that in 2013, 2012 and 2011 the Company had only one operating segment. Specifically, the Company does not internally measure profitability based upon video, audio, or service revenue.

The Company's video products include hardware and software solutions designed to improve the productivity of video and film editors and broadcasters by enabling them to edit video, film and sound; manage media assets; and automate workflows. Professional video creative software and hardware products include the Media Composer product line used to edit television programs, commercials and films; the NewsCutter and Instinct editors designed for news production; and Avid Symphony Nitris DX and Avid DS, which are used during post production. Video products also include Avid ISIS shared storage and Interplay workflow solutions that provide complete network, storage and database solutions based on the Company's Avid Unity MediaNetwork technology and enable users to simultaneously share and manage media assets throughout a project or organization.

The Company's audio products include digital audio software and workstation solutions, control surfaces, live sound systems and notation software that provide music creation; audio recording, editing, and mixing; and live performance solutions. Audio products include Pro Tools digital audio software and workstation solutions to facilitate the audio production process, including music and sound creation, recording, editing, signal processing, integrated surround mixing and mastering, and reference video playback. Audio products also include the ICON (Integrated Console System) systems, including the D-Control and D-Command control surfaces, the VENUE live-sound mixing consoles and Sibelius-branded notation software.

The Company's services revenues are primarily derived from the sale of maintenance contracts and professional service and the recognition of revenues for Implied Maintenance Release PCS. The Company provides online and telephone support and access to software upgrades for customers whose products are under warranty or covered by a maintenance contract. The Company's professional services team provides installation, integration, planning, consulting and training services.

The following is a summary of the Company's revenues from continuing operations by type for the years ended December 31, 2013, 2012 and 2011 (Restated) (in thousands):

	Year Ended December 31,		
	2013	2012	2011 (Restated)
Video products and solutions net revenues	$243,173	$276,909	$298,633
Audio products and solutions net revenues	152,358	201,921	362,087
Products and solutions net revenues	395,531	478,830	660,720
Services net revenues	167,881	156,873	106,165
Total net revenues	$563,412	$635,703	$766,885

98

The following table sets forth the Company's revenues from continuing operations by geographic region for the years ended December 31, 2013, 2012 and 2011 (Restated) (in thousands):

	Year Ended December 31,		
	2013	2012	2011 (Restated)
Revenues:			
United States	$218,154	$249,364	$316,553
Other Americas	43,131	47,817	62,162
Europe, Middle East and Africa	214,441	245,189	267,678
Asia-Pacific	87,686	93,333	120,492
Total net revenues	$563,412	$635,703	$766,885

The following table presents the Company's long-lived assets, excluding intangible assets, by geography at December 31, 2013 and 2012 (in thousands):

	December 31,	
	2013	2012
Long-lived assets:		
United States	$33,193	$39,948
Other countries	4,385	5,286
Total long-lived assets	$37,578	$45,234

R. CREDIT AGREEMENT

On October 1, 2010, Avid Technology, Inc. and certain of its subsidiaries (the "Borrowers") entered into a credit agreement with 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"). The actual amount of credit available to the Borrowers will vary depending upon changes in the level of the respective accounts receivable and inventory, and is subject to other terms and conditions that are more specifically described in the Credit Agreement. On August 29, 2014, the Company entered into an amendment to its Credit Agreement with Wells Fargo that extended the maturity date for the credit facilities from October 1, 2014 to October 1, 2015.

The amended Credit Agreement contains customary representations and warranties, covenants, mandatory prepayments, and events of default under which the Borrowers' payment obligations may be accelerated, including guarantees and liens on substantially all of the Borrowers' assets to secure their obligations under the Credit Agreement. The Credit Agreement prohibits the Company from declaring or paying any cash dividends. The Credit Agreement requires that Avid Technology, Inc. ("Avid Technology") maintain liquidity (comprised of unused availability under its portion of the credit facilities plus certain unrestricted cash and cash equivalents) of $10.0 million, at least $5.0 million of which must be from unused availability under its portion of the credit facilities. The Amendment further limits the Company's ability to access borrowings under the credit facilities if EBITDA (as defined in the Amendment) of $33.8 million is not achieved for the year ending December 31, 2014, or capital expenditures (as defined in the Amendment) exceed $16.0 million for the year ending December 31, 2014. In addition, its subsidiary, Avid Technology International B.V. ("Avid Europe"), is required to maintain liquidity (comprised of unused availability under Avid Europe's portion of the credit facilities plus certain unrestricted cash and cash equivalents) of $5.0 million, at least $2.5 million of which must be from unused availability under Avid Europe's portion of the credit facilities. Interest accrues on outstanding borrowings under the credit facilities at a rate of either LIBOR plus 2.75% or a base rate (as defined in the Credit Agreement) plus 1.75%, at the option of Avid Technology or Avid Europe, as applicable. The Borrowers must also pay Wells Fargo a monthly unused line fee at a rate of 0.625% per annum. Any borrowings under the Credit Agreement are secured by a lien on substantially all the

Borrowers' assets.

The Company incurs certain loan fees and costs associated with its credit facilities. Such costs are capitalized as deferred borrowing costs and amortized as interest expense on a straight-line basis over the term of the Credit Agreement. At December 31, 2013, the balance of the Company's deferred borrowing costs was $0.2 million, net of accumulated amortization of $1.0 million, and at December 31, 2012, the balance of the deferred borrowing costs was $0.5 million, net of accumulated amortization of $0.7 million.

During the first quarter of 2012, Avid Technology borrowed $1.0 million against the credit facilities to meet certain short-term cash requirements, all of which was repaid during the first quarter of 2012. During the third quarter of 2012, Avid Technology and Avid Europe borrowed and repaid $10.0 million and $3.0 million, respectively, against the credit facilities, primarily to facilitate the settlement of certain intercompany balances and payment of intercompany dividends. At December 31, 2013, Avid Technology and Avid Europe had letters of credit guaranteed under the credit facilities of $3.4 million and $1.7 million, respectively. At December 31, 2013, Avid Technology and Avid Europe had available borrowings under the credit facilities of approximately $18.4 million and $15.5 million, respectively, after taking into consideration the outstanding letters of credit and related liquidity covenant.
Other than letters of credit guaranteed under the credit facilities, the Company had no outstanding borrowings under the credit facilities at December 31, 2013 and 2012.

At July 31, 2014, the Company had outstanding borrowings of $10.0 million under the Credit Agreement, and the remaining availability totaled $15.6 million.

S. QUARTERLY RESULTS (UNAUDITED)

The following information has been derived from unaudited consolidated financial statements that, in the opinion of management, include all normal recurring adjustments necessary for a fair presentation of such information.

(In thousands, except per share data)	Quarter Ended							
	2013				2012			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30 (Restated)	June 30 (Restated)	Mar. 31 (Restated)
Net revenues	$147,103	$138,893	$141,345	$136,071	$160,469	$150,607	$165,476	$159,151
Cost of revenues	59,801	56,055	54,294	52,291	64,210	55,019	67,312	59,893
Amortization of intangible assets	158	158	501	651	646	634	644	650
Gross profit	87,144	82,680	86,550	83,129	95,613	94,954	97,520	98,608
Operating expenses:								
Research and development	24,556	23,239	23,847	23,607	22,951	23,207	26,261	26,460
Marketing and selling	34,566	31,512	33,903	33,909	35,385	33,941	42,282	41,873
General and administrative	23,135	22,715	16,131	15,597	13,462	10,905	13,351	14,348
Amortization of intangible assets	667	660	658	663	755	782	1,106	1,611
Restructuring costs, net	2,491	688	1,918	273	126	9,831	14,437	444
Total operating expenses	85,415	78,814	76,457	74,049	72,679	78,666	97,437	84,736
Operating Income	1,729	3,866	10,093	9,080	22,934	16,288	83	13,872
Other income (expense), net	192	(363)	(247)	(258)	(1,150)	(318)	(379)	(194)
Income (loss) from continuing operations before income taxes	1,921	3,503	9,846	8,822	21,784	15,970	(296)	13,678
Provision for (benefit from) income taxes, net	792	921	669	557	1,119	1,194	(936)	2,672
Income from continuing operations	1,129	2,582	9,177	8,265	20,665	14,776	640	11,006

Discontinued operations:								
Gain on divestiture of consumer business	—	—	—	—	—	37,972	—	—
Income from divested operations	—	—	—	—	—	—	2,773	5,059
Income from discontinued operations	—	—	—	—	—	37,972	2,773	5,059
Net income	$1,129	$2,582	$9,177	$8,265	$20,665	$52,748	$3,413	$16,065
Income per share – basic:								
Income per share from continuing operations – basic	$0.03	$0.07	$0.24	$0.21	$0.53	$0.38	$0.02	$0.29
Income per share from discontinued operations – basic	0.00	0.00	0.00	0.00	0.00	0.98	0.07	0.13
Net income per share – basic	$0.03	$0.07	$0.24	$0.21	$0.53	$1.36	$0.09	$0.42
Income per share – diluted:								
Income per share from continuing operations – diluted	$0.03	$0.07	$0.23	$0.21	$0.53	$0.38	$0.02	$0.28
Income per share from discontinued operations – diluted	0.00	0.00	0.00	0.00	0.00	0.98	0.07	0.13
Net income per share – diluted	$0.03	$0.07	$0.23	$0.21	$0.53	$1.36	$0.09	$0.41
Weighted-average common shares outstanding – basic	39,080	39,075	39,040	38,977	38,916	38,859	38,778	38,662
Weighted-average common shares outstanding – diluted	39,111	39,076	39,069	39,034	38,937	38,890	38,798	38,721

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Our management, including the Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2013. Based on this evaluation, our management concluded that as of December 31, 2013 these disclosure controls and procedures were not effective at the reasonable assurance level as a result of the material weaknesses in our internal control over financial reporting, which are described below. As discussed below, our internal control over financial reporting is an integral part of our disclosure controls and procedures.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and includes those policies and procedures that:

(1) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of inherent limitations, no matter how well designed and operated, internal control over financial reporting may not prevent or detect misstatements and can only provide reasonable assurance of achieving the desired control objectives. In addition, the design of internal control over financial reporting must reflect the fact that there are

resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Our Chief Executive Officer and Chief Financial Officer have performed an evaluation of our internal control over financial reporting under the framework in Internal Control-Integrated Framework (1992), issued by the Committee of Sponsoring Organizations of the Treadway Commission. The objective of this assessment was to determine whether our internal control over financial reporting was effective at December 31, 2013.

A material weakness is a deficiency, or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

As described in Note B to our Consolidated Financial Statements, on May 20, 2013, we identified the need to restate revenue for millions of customer transactions for interim and annual periods ended during the periods from January 1, 2005 to September 30, 2012 (hereinafter referred to as the "Restatement Periods") to correct errors in our historically issued financial statements. In addition, we identified certain other adjustments in the Restatement Periods that were deemed material and were adjusted in the restated financial statements for the Restatement Periods. The errors in the misapplication of GAAP over revenue recognition and the other errors identified resulted from several control deficiencies that were in existence during the Restatement Periods and at December 31, 2013, including:

- Control Environment - We did not maintain an effective control environment, which is the foundation for the discipline and structure necessary for effective internal control over financial reporting, as evidenced by: (i) an insufficient number of personnel appropriately qualified to perform control monitoring activities, including the recognition of the risks and complexities of our transactions and business operations, (ii) an insufficient number of personnel with an appropriate level of GAAP knowledge and experience or ongoing training in the application of GAAP commensurate with our financial reporting requirements, which resulted in erroneous judgments regarding the proper application of GAAP, and (iii) insufficient corporate involvement to adequately exercise appropriate oversight of accounting judgments and estimates.

- Risk Assessment - We did not have an effective risk assessment process. From a governance perspective, the Company historically did not have a formal process to identify, update and assess risks, including changes in the Company's business practices, that could significantly impact the Company's consolidated financial statements as well as the system of internal control over financial reporting.

- Control Activities - We did not have control activities that were designed and operating effectively. Control activities that were historically in place (i) did not always address relevant risks, (ii) were sometimes performed with incomplete information and (iii) were not performed on all relevant transactions. In addition, the level of precision of the management review controls was not sufficient to identify all potential errors.

- Information and Communications