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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

OR

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

For the transition period from ______________ to ______________

Commission File Number: 1-36254

Avid Technology, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**04-2977748**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

75 Blue Sky Drive
Burlington Massachusetts 01803
Address of Principal Executive Offices, Including Zip Code

(978) 640-3000
Registrant's Telephone Number, Including Area Code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	AVID	Nasdaq Global Select Market

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 x No ☐

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ☐

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

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares outstanding of the registrant’s Common Stock, as of November 4, 2022, was 43,691,214.

AVID TECHNOLOGY, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED September 30, 2022

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- the effect of the continuing worldwide macroeconomic uncertainty and its impacts, including inflation, market volatility and fluctuations in foreign currency exchange and interest rates on our business and results of operations, including impacts related to acts of war, armed conflict, and cyber conflict, such as, for example the Russian invasion of Ukraine, and related international sanctions and reprisals;
- the effects that the COVID-19 pandemic, including variants, and its related consequences may have on the national and global economy and on our business and operations, revenues, cash flows and profitability, and capital resources;
- our ability to successfully implement our strategy, including our cost saving measures and other actions implemented in response to market volatility and other adverse economic and commercial conditions;
- the anticipated trends and developments in our markets and the success of our products in these markets;
- our ability to develop, market, and sell new products and services;
- our business strategies and market positioning;
- our ability to achieve our goal of expanding our market positions;
- our ability to accelerate growth of our cloud-enabled platform;
- anticipated trends relating to our sales, financial condition or results of operations, including our ongoing shift to a recurring revenue model and complex enterprise sales with long sales cycles;
- the expected timing of recognition of revenue backlog as revenue, and the timing of recognition of revenues from subscription offerings;
- our ability to successfully consummate acquisitions and investment transactions and to successfully integrate acquired businesses;
- the anticipated performance of our products;
- our ability to maintain adequate supplies of products and components, including through sole-source supply arrangements;
- our plans regarding repatriation of foreign earnings;
- the outcome, impact, costs, and expenses of pending litigation or any new litigation or government inquiries to which we may become subject;
- our compliance with covenants contained in the agreements governing our indebtedness;
- our ability to service our debt and meet the obligations thereunder;

- the effect of seasonal changes in demand for our products and services;
- estimated asset and liability values;
- our ability to protect and enforce our intellectual property rights; and
- the expected availability of cash to fund our business and our ability to maintain adequate liquidity and capital resources, generally and in the wake of the COVID-19 pandemic and the continuing worldwide macroeconomic uncertainty described above.

Actual results and events in future periods may differ materially from those expressed or implied by forward-looking statements in this Form 10-Q. There are a number of factors that could cause actual events or results to differ materially from those indicated or implied by forward-looking statements, many of which are beyond our control, including the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021, and in other documents we file from time to time with the U.S. Securities and Exchange Commission ("SEC"). In addition, the forward-looking statements contained in this Form 10-Q represent our estimates only as of the date of this filing and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update these forward-looking statements in the future, we specifically disclaim any obligation to do so, whether to reflect actual results, changes in assumptions, changes in other factors affecting such forward-looking statements, or otherwise.

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

PART I - FINANCIAL INFORMATION

ITEM 1. UNAUDITED FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Net revenues:				
Subscription	$ 41,782	$ 28,008	$ 108,878	$ 74,384
Maintenance	27,280	30,702	83,382	90,997
Integrated solutions & other	33,923	42,930	109,054	125,499
Total net revenues	102,985	101,640	301,314	290,880
Cost of revenues:				
Subscription	6,163	4,020	18,057	10,210
Maintenance	4,849	5,739	15,379	17,135
Integrated solutions & other	22,194	25,978	67,969	76,078
Total cost of revenues	33,206	35,737	101,405	103,423
Gross profit	69,779	65,903	199,909	187,457
Operating expenses:				
Research and development	17,110	17,129	49,869	48,639
Marketing and selling	24,362	24,413	69,962	66,511
General and administrative	14,066	14,901	42,241	42,214
Restructuring costs, net	158	(88)	515	1,001
Total operating expenses	55,696	56,355	162,587	158,365
Operating income	14,083	9,548	37,322	29,092
Interest expense, net	(2,741)	(1,646)	(6,161)	(5,547)
Other income, net	15	7,864	7	4,459
Income before income taxes	11,357	15,766	31,168	28,004
(Benefit from) provision for income taxes	(665)	991	1,187	1,832
Net income	$ 12,022	$ 14,775	$ 29,981	$ 26,172
Net income per common share – basic	$0.27	$0.32	$0.67	$0.58
Net income per common share – diluted	$0.27	$0.32	$0.66	$0.56
Weighted-average common shares outstanding – basic	44,476	45,564	44,676	45,115
Weighted-average common shares outstanding – diluted	44,703	46,428	45,107	46,449

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Net income	$ 12,022	$ 14,775	$ 29,981	$ 26,172
Other comprehensive loss:				
Foreign currency translation adjustments	(1,416)	(738)	(3,352)	(1,980)
Comprehensive income	$ 10,606	$ 14,037	$ 26,629	$ 24,192

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

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

	September 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 31,344	$ 56,818
Restricted cash	2,413	2,416
Accounts receivable, net of allowances of $2,317 and $1,456 at September 30, 2022 and December 31, 2021, respectively	55,257	77,046
Inventories	21,993	19,922
Prepaid expenses	8,766	5,464
Contract assets	17,728	18,903
Other current assets	2,380	1,953
Total current assets	139,881	182,522
Property and equipment, net	21,215	16,028
Goodwill	32,643	32,643
Right of use assets	20,553	24,143
Deferred tax assets, net	3,972	5,210
Other long-term assets	19,271	13,454
Total assets	$ 237,535	$ 274,000
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 34,906	$ 26,854
Accrued compensation and benefits	22,453	35,458
Accrued expenses and other current liabilities	35,560	37,552
Income taxes payable	27	868
Short-term debt	8,694	9,158
Deferred revenue	60,630	87,475
Total current liabilities	162,270	197,365
Long-term debt	175,683	160,806
Long-term deferred revenue	16,045	10,607
Long-term lease liabilities	19,978	23,379
Other long-term liabilities	4,960	5,917
Total liabilities	378,936	398,074
Commitments and contingencies (Note 7)		
Stockholders' deficit:		
Common stock, par value $0.01; authorized: 100,000 shares; issued: 46,472 shares at September 30, 2022 and 45,828 shares at December 31, 2021; outstanding: 43,926 shares at September 30, 2022 and 44,954 shares at December 31, 2021	461	455
Treasury stock	(68,651)	(25,090)
Additional paid-in capital	1,031,232	1,031,633
Accumulated deficit	(1,096,978)	(1,126,959)
Accumulated other comprehensive loss	(7,465)	(4,113)
Total stockholders' deficit	(141,401)	(124,074)
Total liabilities and stockholders' deficit	$ 237,535	$ 274,000

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

AVID TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
(in thousands, unaudited)

Nine Months Ended September 30, 2022

	Shares of Common Stock							
	Issued	In Treasury	Common Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Deficit
Balances at January 1, 2022	45,828	(874)	$ 455	$ (25,090)	$ 1,031,633	$ (1,126,959)	$ (4,113)	$ (124,074)
Stock issued pursuant to employee stock plans, net of shares withheld for employee tax obligations	391	—	4	—	(8,940)	—	—	(8,936)
Repurchase of common stock	—	(354)	—	(10,816)	—	—	—	(10,816)
Stock-based compensation	—	—	—	—	3,422	—	—	3,422
Net income	—	—	—	—	—	10,586	—	10,586
Other comprehensive loss	—	—	—	—	—	—	(201)	(201)
Balances at March 31, 2022	46,219	(1,228)	459	(35,906)	1,026,115	(1,116,373)	(4,314)	(130,019)
Stock issued pursuant to employee stock plans, net of shares withheld for employee tax obligations	189	—	2	—	(1,483)	—	—	(1,481)
Repurchase of common stock	—	(560)	—	(14,143)	—	—	—	(14,143)
Stock-based compensation	—	—	—	—	3,645	—	—	3,645
Net income	—	—	—	—	—	7,373	—	7,373
Other comprehensive loss	—	—	—	—	—	—	(1,735)	(1,735)
Balances at June 30, 2022	46,408	(1,788)	461	(50,049)	1,028,277	(1,109,000)	(6,049)	(136,360)
Stock issued pursuant to employee stock plans, net of shares withheld for employee tax obligations	64	—	—	—	(992)	—	—	(992)
Repurchase of common stock	—	(758)	—	(18,602)	—	—	—	(18,602)
Stock-based compensation	—	—	—	—	3,947	—	—	3,947
Net income	—	—	—	—	—	12,022	—	12,022
Other comprehensive loss	—	—	—	—	—	—	(1,416)	(1,416)
Balances at September 30, 2022	46,472	(2,546)	461	(68,651)	1,031,232	(1,096,978)	(7,465)	(141,401)

Nine Months Ended September 30, 2021									
	Shares of Common Stock								
	Issued	**In Treasury**	**Common Stock**	**Treasury Stock**	**Additional Paid-in Capital**	**Accumulated Deficit**	**Accumulated Other Comprehensive Loss**	**Total Stockholders' Deficit**
Balances at January 1, 2021	44,420	—	442	—	1,036,658	(1,168,347)	(1,677)	(132,924)
Stock issued pursuant to employee stock plans, net of shares withheld for employee tax obligations	592	—	6	—	(7,712)	—	—	(7,706)
Stock-based compensation	—	—	—	—	3,122	—	—	3,122
Net income	—	—	—	—	—	4,391	—	4,391
Other comprehensive loss	—	—	—	—	—	—	(1,457)	(1,457)
Balances at March 31, 2021	45,012	—	448	—	1,032,068	(1,163,956)	(3,134)	(134,574)
Stock issued pursuant to employee stock plans, net of shares withheld for employee tax obligations	513	—	4	—	(5,973)	—	—	(5,969)
Stock-based compensation	—	—	—	—	3,580	—	—	3,580
Net income	—	—	—	—	—	7,006	—	7,006
Other comprehensive income	—	—	—	—	—	—	215	215
Balances at June 30, 2021	45,525	—	452	—	1,029,675	(1,156,950)	(2,919)	(129,742)
Stock issued pursuant to employee stock plans	168	—	2	—	(3,073)	—	—	(3,071)
Repurchase of common stock	—	(412)	—	(11,169)	—	—	—	(11,169)
Stock-based compensation	—	—	—	—	3,514	—	—	3,514
Net income	—	—	—	—	—	14,775	—	14,775
Other comprehensive loss	—	—	—	—	—	—	(738)	(738)
Balances at September 30, 2021	45,693	(412)	454	(11,169)	1,030,116	(1,142,175)	(3,657)	(126,431)

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

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

	Nine Months Ended September 30,	
	2022	**2021**
Cash flows from operating activities:		
Net income	$ 29,981	$ 26,172
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,023	6,323
Allowance for doubtful accounts	893	401
Stock-based compensation expense	11,014	10,216
Non-cash provision for restructuring	495	841
Non-cash interest expense	367	386
Loss on extinguishment of debt	—	2,579
Gain on forgiveness of PPP loan	—	(7,800)
Loss on disposal of fixed assets	548	—
Unrealized foreign currency transaction gains	(2,769)	(1,400)
Benefit from deferred taxes	1,238	1,388
Changes in operating assets and liabilities:		
Accounts receivable	20,896	20,089
Inventories	(2,071)	4,353
Prepaid expenses and other assets	(5,624)	(1,343)
Accounts payable	8,050	590
Accrued expenses, compensation and benefits and other liabilities	(17,257)	(10,635)
Income taxes payable	(841)	(217)
Deferred revenue and contract assets	(25,380)	(16,525)
Net cash provided by operating activities	25,563	35,418
Cash flows from investing activities:		
Purchases of property and equipment	(11,067)	(4,750)
Net cash used in investing activities	(11,067)	(4,750)
Cash flows from financing activities:		
Proceeds from revolving credit facility	19,000	—
Proceeds from long-term debt	—	180,000
Repayment of debt	(4,515)	(208,142)
Payments for repurchase of common stock	(40,929)	(10,526)
Proceeds from the issuance of common stock under employee stock plans	468	363
Common stock repurchases for tax withholdings for net settlement of equity awards	(11,878)	(17,108)
Prepayment penalty on extinguishment of debt	—	(1,169)
Payments for credit facility issuance costs	(440)	(2,574)
Net cash used in financing activities	(38,294)	(59,156)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1,809)	(927)
Net decrease in cash, cash equivalents and restricted cash	(25,607)	(29,415)
Cash, cash equivalents and restricted cash at beginning of period	60,556	83,638
Cash, cash equivalents and restricted cash at end of period	$ 34,949	$ 54,223
Supplemental information:		
Cash and cash equivalents	$ 31,344	$ 50,485
Restricted cash	2,413	1,422
Restricted cash included in other long-term assets	1,192	2,316
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 34,949	$ 54,223
Cash paid for income taxes	$ 1,551	$ 706
Cash paid for interest	$ 3,095	$ 6,354

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

AVID TECHNOLOGY, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. FINANCIAL INFORMATION

The accompanying condensed consolidated financial statements include the accounts of Avid Technology, Inc. and its wholly owned subsidiaries (collectively, “we” or “our”). These financial statements are unaudited. However, in the opinion of management, the condensed consolidated financial statements reflect all normal and recurring adjustments necessary for their fair statement. Interim results are not necessarily indicative of results expected for any other interim period or a full year. We prepared the accompanying unaudited condensed consolidated financial statements in accordance with the instructions for Form 10-Q and, therefore, include all information and footnotes necessary for a complete presentation of operations, comprehensive income, financial position, changes in stockholders’ deficit, and cash flows in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The accompanying condensed consolidated balance sheet as of December 31, 2021 was derived from our audited consolidated financial statements and does not include all disclosures required by U.S. GAAP for annual financial statements. We filed audited consolidated financial statements as of and for the year ended December 31, 2021 in our Annual Report on Form 10-K for the year ended December 31, 2021, which included information and footnotes necessary for such presentation. The financial statements contained in this Form 10-Q should be read in conjunction with the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2021.

The consolidated results of operations for the three months and nine ended September 30, 2022 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2022. The Company’s results of operations are affected by economic conditions, including macroeconomic conditions and levels of business and consumer confidence.

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus ("COVID-19") a pandemic. The COVID-19 pandemic has created, and may continue to create, significant uncertainty in macroeconomic conditions, including disrupted supply chains and significant volatility in financial markets. The countries in which the Company operates have generally continued easing initial measures to control the spread of COVID-19. However, the Company is not able to estimate the impact that COVID-19 may continue to have on worldwide economic activity or the Company’s financial position. The Russian invasion of Ukraine and related acts of aggression and destruction, including destruction of energy, commercial and industrial infrastructure has caused further direct and indirect economic disruption, which may exacerbate supply chain issues further and may lead to prolonged shortages and economic disruption including foreign currency fluctuation. The Company continues to assess the potential impacts of armed conflict and COVID-19 and the measures taken by governments, businesses and other organizations in response as information becomes available.

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

Reclassifications

As our business continues to shift towards a subscription-based model, we have reformatted our income statement presentation to conform with this shift starting on our Annual Report for the year ended December 31, 2021. We have reclassified certain prior period amounts related to revenue and cost of goods sold within our consolidated statements of operations and accompanying notes to conform to our current period presentation. These reclassifications did not affect total revenue or total cost of goods sold.

Significant Accounting Policies

There have been no material changes to our significant accounting policies as compared to the significant accounting policies described in our Annual Report.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board ("FASB") issued ASU 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2020-04"). ASU 2020-04 is intended to provide temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. This guidance is effective beginning on March 12, 2020, and the Company adopted ASU 2020-04 as of January 1, 2022. The Company has determined the impact of this adoption was not material to our consolidated financial statements and related disclosures.

2. NET INCOME PER SHARE

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

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

The following table sets forth (in thousands) potential common shares that were considered anti-dilutive securities at September 30, 2022 and 2021:

	September 30, 2022	September 30, 2021
Non-vested restricted stock units	820	930

The following table sets forth (in thousands) the basic and diluted weighted common shares outstanding for the three and nine months ended September 30, 2022 and 2021:

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Weighted common shares outstanding - basic	44,476	45,564	44,676	45,115
Net effect of common stock equivalents	227	864	431	1,334
Weighted common shares outstanding - diluted	44,703	46,428	45,107	46,449

3. FAIR VALUE MEASUREMENTS

Assets Measured at Fair Value on a Recurring Basis

We measure deferred compensation investments on a recurring basis. As of September 30, 2022 and December 31, 2021, our deferred compensation investments 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 money market and mutual funds. Assets valued based on other observable inputs and classified as Level 2 are insurance contracts.

The following tables summarize our deferred compensation investments measured at fair value on a recurring basis (in thousands):

		Fair Value Measurements at Reporting Date Using		
	September 30, 2022	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	$ 375	$ 84	$ 291	$ —

		Fair Value Measurements at Reporting Date Using		
	December 31, 2021	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	$ 408	$ 99	$ 309	$ —

Financial Instruments Not Recorded at Fair Value

The carrying amounts of our other financial assets and liabilities including cash, accounts receivable, accounts payable, and accrued liabilities approximate their respective fair values because of the relatively short period of time between their origination and their expected realization or settlement.

4. INVENTORIES

Inventories consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
Raw materials	$ 8,257	$ 8,519
Work in process	288	304
Finished goods	13,448	11,099
Total	$ 21,993	$ 19,922

As of September 30, 2022 and December 31, 2021, finished goods inventory included $1.8 million and $1.9 million, respectively, associated with products shipped to customers and deferred labor costs for arrangements where revenue recognition had not yet commenced.

5. LEASES

We have entered into a number of facility leases to support our research and development activities, sales operations, and other corporate and administrative functions in North America, Europe, and Asia, which qualify as operating leases under U.S. GAAP. We also have a limited number of equipment leases that qualify as either operating or finance leases. We determine if contracts with vendors represent a lease or have a lease component under U.S. GAAP at contract inception. Our leases have remaining terms ranging from less than one year to six years. Some of our leases include options to extend or terminate the lease prior to the end of the agreed upon lease term. For purposes of calculating lease liabilities, lease terms include options to extend or terminate the lease when it is reasonably certain that we will exercise such options.

Operating lease right of use assets and liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the lease commencement date. As our leases generally do not provide an implicit rate, we use an estimated incremental borrowing rate in determining the present value of future payments. The incremental borrowing rate represents an estimate of the interest rate we would incur at lease commencement to borrow an amount equal to the lease payments on a collateralized basis over the term of a lease within a particular location and currency environment. As of September 30, 2022, the weighted average incremental borrowing rate was 5.9% and the weighted average remaining lease term was 5.3 years.

Finance lease right of use assets and liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the lease commencement date. Each lease agreement provides an implicit discount rate used to determine the present value of future payments. As of September 30, 2022, the weighted-average discount rate was 2.3% and the weighted average remaining lease term was 1.4 years.

Lease costs for minimum lease payments is recognized on a straight-line basis over the lease term. Our total operating lease costs were $1.4 million and $1.7 million for the three months ended September 30, 2022 and September 30, 2021, respectively and $4.3 million and $5.4 million for the nine months ended September 30, 2022 and September 30, 2021, respectively. Related cash payments were $1.5 million and $1.9 million for the three months ended September 30, 2022 and September 30, 2021, respectively, and $4.6 million and $5.8 million for the nine months ended September 30, 2022 and September 30, 2021, respectively. Short term lease costs were $0.6 million and $0.4 million for the three months ended September 30, 2022 and September 30, 2021, respectively, and $1.9 million and $1.0 million for the nine months ended September 30, 2022 and September 30, 2021, respectively. Operating lease costs are included within research and development, marketing and selling, and general and administrative lines on the condensed consolidated statements of operations, and the related cash payments are included in the operating cash flows on the condensed consolidated statements of cash flows. Finance lease costs, variable lease costs, and sublease income are not material.

The table below reconciles the undiscounted future minimum lease payments for operating and finance leases under non-cancelable leases with terms of more than one year to the total lease liabilities recognized on the condensed consolidated balance sheets as of September 30, 2022 (in thousands):

Year Ending December 31,	**Operating Leases**	**Finance Leases**
2022 (excluding nine months ended September 30, 2022)	$ 1,577	$ 56
2023	5,742	219
2024	5,004	72
2025	5,034	—
2026	5,060	—
Thereafter	6,446	—
Total future minimum lease payments	$ 28,863	$ 347
Less effects of discounting	(4,307)	(4)
Total lease liabilities	$ 24,556	$ 343

Supplemental balance sheet information related to leases was as follows (in thousands):

Operating Leases	**September 30, 2022**
Right of use assets	$ 20,553
Accrued expenses and other current liabilities	(4,578)
Long-term lease liabilities	(19,978)
Total lease liabilities	$ (24,556)

Finance Leases	**September 30, 2022**
Other assets	$ 316
Accrued expenses and other current liabilities	(243)
Other long-term liabilities	(100)
Total lease liabilities	$ (343)

6. OTHER LONG-TERM LIABILITIES

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

	September 30, 2022	**December 31, 2021**
Deferred compensation	$ 4,263	$ 4,981
Finance lease liabilities	100	289
Other long-term liabilities	597	647
Total	$ 4,960	$ 5,917

7. COMMITMENTS AND CONTINGENCIES

Commitments

We entered into a long-term agreement to purchase a variety of information technology solutions from a third party in the second quarter of 2020, which included an unconditional commitment to purchase a minimum of $32.2 million of products and services over the initial five years of the agreement. We have purchased $17.9 million of products and services pursuant to this agreement as of September 30, 2022.

We have letters of credit that are used as security deposits in connection with our leased Burlington, Massachusetts office space. In the event of default on the underlying leases, the landlords would, at September 30, 2022, be eligible to draw against the letters of credit to a maximum of $0.7 million.

We also have letters of credit in connection with security deposits for other facility leases totaling $0.6 million in the aggregate, as well as letters of credit totaling $1.9 million that otherwise support our ongoing operations. These letters of credit have various terms and expire during 2022 and beyond, while some of the letters of credit may automatically renew based on the terms of the underlying agreements.

Substantially all of our letters of credit are collateralized by restricted cash included in the caption “Restricted cash” and “Other long-term assets” on our condensed consolidated balance sheets as of September 30, 2022.

Contingencies

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

Following the termination of our former Chairman and Chief Executive Officer on February 25, 2018, we received a notice alleging that we breached the former employee’s employment agreement. On April 16, 2019, we received an additional notice again alleging we breached the former employee’s employment agreement. We have since been in communications with our former Chairman and Chief Executive Officer’s counsel. While we intend to defend any claim vigorously, when and if a claim is actually filed, we are currently unable to estimate an amount or range of any reasonably possible losses that could occur as a result of this matter.

On July 14, 2020, we sent a notice to a customer demanding sums that we believe are due to Avid pursuant to a contract. On October 7, 2020, the customer sent a notice to us denying any legal liability and demanding payment for breach of contract resulting from various alleged delays by us. While we intend to defend any claim vigorously when and if a claim is actually filed, we are currently unable to estimate an amount or range of any reasonably possible losses that could occur related to this matter.

We consider all claims on a quarterly basis and based on known facts assess whether potential losses are considered reasonably possible, probable, and estimable. Based upon this assessment, we then evaluate disclosure requirements and whether to accrue for such claims in our condensed consolidated financial statements. We record 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 and such amount is material. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case.

At September 30, 2022 and as of the date of filing of these condensed consolidated financial statements, we believe 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, we provide indemnification to certain customers for losses incurred in connection with intellectual property infringement claims brought by third parties with respect to our 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 we could be required to make under these indemnification provisions is theoretically unlimited. To date, we have not incurred material costs related to these indemnification provisions; accordingly, we believe the estimated fair value of these indemnification provisions is immaterial. Further, certain arrangements with customers include clauses whereby we may be subject to penalties for failure to meet certain performance obligations; however, we have not recorded any related material penalties to date.

We provide 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, we record an accrual for the related liability based on historical trends and actual material and labor costs. The following table sets forth the activity in the product warranty accrual account for the nine months ended September 30, 2022 and 2021 (in thousands):

	Nine Months Ended September 30,	
	2022	**2021**
Accrual balance at beginning of period	$ 1,219	$ 1,095
Accruals for product warranties	541	988
Costs of warranty claims	(784)	(900)
Accrual balance at end of period	$ 976	$ 1,183

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

8. RESTRUCTURING COSTS AND ACCRUALS

In October 2020, we committed to a restructuring plan in order to undergo a strategic reorganization of our business. The strategic reorganization involved significant changes in business operations to better support our strategy and overall performance. The restructuring plan related to our strategic reorganization is expected to be substantially completed in 2022.

During the nine months ended September 30, 2022, we recorded restructuring charges of $0.5 million for employee severance costs related to three positions eliminated throughout 2022.

During the nine months ended September 30, 2021, we recorded restructuring charges of $1.0 million for employee severance costs related to 24 positions eliminated throughout 2021.

The following table sets forth the activity in the restructuring accruals for the nine months ended September 30, 2022 (in thousands):

	Employee
Accrual balance as of December 31, 2021	$ 655
Restructuring charges and revisions	515
Cash payments	(917)
Foreign exchange impact on ending balance	(17)
Accrual balance as of September 30, 2022	$ 236

The employee restructuring accrual at September 30, 2022 represents severance costs to former employees that will be paid out within 12 months, and is, therefore, included in the caption "accrued expenses and other current liabilities" in our condensed consolidated balance sheet as of September 30, 2022.

9. REVENUE

Disaggregated Revenue and Geography Information

Through the evaluation of the discrete financial information that is regularly reviewed by the chief operating decision makers (our chief executive officer and chief financial officer), we have determined that we have one reportable segment.

The following table is a summary of our revenues by type for the three and nine months ended September 30, 2022 and 2021 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Subscriptions	$ 41,782	$ 28,008	$ 108,878	$ 74,384
Maintenance	27,280	30,702	83,382	90,997
Integrated solutions & other	33,923	42,930	109,054	125,499
Total net revenues	$ 102,985	$ 101,640	$ 301,314	$ 290,880

The following table sets forth our revenues by geographic region for the three and nine months ended September 30, 2022 and 2021 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues:				
United States	$ 46,206	$ 45,026	$ 130,755	$ 126,084
Europe, Middle East and Africa	36,865	38,782	112,026	109,400
Asia-Pacific	13,747	12,610	39,066	40,366
Other Americas	6,167	5,222	19,467	15,030
Total net revenues	$ 102,985	$ 101,640	$ 301,314	$ 290,880

Contract Asset

Contract asset activity for the nine months ended September 30, 2022 and 2021 was as follows (in thousands):

	September 30, 2022	September 30, 2021
Contract asset at beginning of period	$ 25,397	$ 18,579
Revenue in excess of billings	51,400	43,757
Customer billings	(47,427)	(39,724)
Contract asset at end of period	$ 29,370	$ 22,612
Less: long-term portion (recorded in other long-term assets)	11,642	—
Contract asset, current portion	$ 17,728	$ 22,612

The increase in the long-term portion of contract assets is primarily due to long-term subscription agreements with revenue recognition ahead of scheduled billings greater than 12 months.

Deferred Revenue

Deferred revenue activity for the nine months ended September 30, 2022 and 2021 was as follows (in thousands):

	September 30, 2022	September 30, 2021
Deferred revenue at beginning of period	$ 98,082	$ 99,258
Billings deferred	57,094	56,846
Recognition of prior deferred revenue	(78,501)	(69,337)
Deferred revenue at end of period	$ 76,675	$ 86,767

A summary of the significant performance obligations included in deferred revenue is as follows (in thousands):

	September 30, 2022
Product	$ 7,922
Subscription	8,545
Maintenance contracts	55,435
Implied PCS	4,293
Professional services, training and other	480
Deferred revenue at September 30, 2022	$ 76,675

Remaining Performance Obligations

For transaction prices allocated to remaining performance obligations, we apply practical expedients and do not disclose quantitative or qualitative information for remaining performance obligations (i) that have original expected durations of one year or less and (ii) where we recognize revenue equal to what we have the right to invoice and that amount corresponds directly with the value to the customer of our performance to date.

Historically, for many of our products, we had an ongoing practice of making when-and-if-available software updates available to customers free of charge for a period of time after initial sales to customers. The expectation created by this practice of providing free Software Updates represents an implied obligation of a form of post-contract customer support (“Implied PCS”) which represents a performance obligation. While we have ceased providing Implied PCS on new product offerings, we continue to provide Implied PCS for older products that were predominately sold in prior years. Revenue attributable to Implied PCS performance obligations is recognized over time on a ratable basis over the period that Implied PCS is expected to be provided, which is typically six years. We have remaining performance obligations of $4.3 million attributable to Implied PCS recorded in deferred revenue as of September 30, 2022. We expect to recognize revenue for these remaining performance obligations of $0.5 million for the remainder of 2022 and $1.6 million, $1.1 million, $0.7 million and $0.3 million for the years ending December 31, 2023, 2024, 2025, and 2026, respectively, and $0.1 million thereafter.

As of September 30, 2022, we had approximately $22.5 million of transaction price allocated to remaining performance obligations for certain enterprise agreements that have not yet been fully invoiced. Approximately $18.9 million of these performance obligations were unbilled as of September 30, 2022. Remaining performance obligations represent obligations we must deliver for specific products and services in the future where there is not yet an enforceable right to invoice the customer. Our remaining performance obligations do not include contractually committed minimum purchases that are common in our strategic purchase agreements with resellers since our specific obligations to deliver products or services is not yet known, as customers may satisfy such commitments by purchasing an unknown combination of current or future product offerings. While the timing of fulfilling individual performance obligations under the contracts can vary dramatically based on customer requirements, we expect to recognize the $22.5 million in roughly equal installments through 2027.

Remaining performance obligation estimates are subject to change and are affected by several factors, including terminations due to contract breach, contract amendments, and changes in the expected timing of delivery.

10. LONG-TERM DEBT AND CREDIT AGREEMENT

Long-term debt consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
Term Loan, net of unamortized issuance costs and debt discount of $2,131 and $2,059 at September 30, 2022 and December 31, 2021, respectively	$ 164,594	$ 168,941
Credit Facility	19,000	—
Other long-term debt	783	1,023
Total debt	$ 184,377	$ 169,964
Less: current portion	8,694	9,158
Total long-term debt	$ 175,683	$ 160,806

The following table summarizes the contractual maturities of our borrowing obligations as of September 30, 2022 (in thousands):

Fiscal Year	Term Loan	Credit Facility	Other Long-Term Debt	Total
2022 (excluding nine months ended September 30, 2022)	$ 2,138	$ —	$ 35	$ 2,173
2023	8,550	—	147	8,697
2024	11,756	—	157	11,913
2025	16,031	—	169	16,200
2026	17,100	—	181	17,281
Thereafter	111,150	19,000	94	130,244
Total before unamortized discount	$ 166,725	$ 19,000	$ 783	$ 186,508
Less: unamortized discount and issuance costs	(2,131)	—	—	(2,131)
Less: current portion of long-term debt	(8,550)	—	(144)	(8,694)
Total long-term debt	$ 156,044	$ 19,000	$ 639	$ 175,683

Credit Agreement

On January 5, 2021, the Company entered into a Credit Agreement (the “Credit Agreement”) with JPMorgan Chase Bank, N.A. as collateral and administrative agent, and a syndicate of banks, as lenders thereunder (the “Lenders”). Pursuant to the Credit Agreement, the Lenders agreed to provide the Company with (a) a term loan in the aggregate principal amount of $180.0 million (the “Term Loan”) and (b) a revolving credit facility (the “Credit Facility”) of up to a maximum of $70.0 million in borrowings outstanding at any time. The Credit Facility, which was undrawn at closing, can be used for working capital, other general corporate purposes and for other permitted uses. The proceeds from the Term Loan, plus available cash on hand, were used to repay outstanding borrowings of $201 million under the Company’s prior financing agreement with Cerberus Business Finance, LLC (the “Financing Agreement”), which was then terminated. As a result of this termination, the Company incurred a loss on extinguishment of debt of $3.7 million made up of $2.6 million of remaining unamortized issuance costs as well as a $1.1 million prepayment penalty.

In association with the Credit Agreement, the Company incurred $2.5 million of issuance discounts and an immaterial amount of issuance costs. The Term Loan had an initial interest rate of LIBOR plus an applicable margin of 3.00%, with a 0.25% LIBOR floor. The applicable margin on the Term Loan and the Credit Facility ranged from 2.00% to 3.25%, depending on leverage.

On February 25, 2022, the Company executed an Amended and Restated Credit Agreement (the "A&R Credit Agreement) with JPMorgan Chase Bank, N.A. and the Lenders. The A&R Credit Agreement extended the term of the Term Loan to February 25, 2027, reduced the applicable interest rate margins by 0.25%, removed the LIBOR floor, moved the reference rate from LIBOR to the Secured Overnight Financing Rate ("SOFR"), reset the principal amortization schedule, and eliminated the fixed charge coverage ratio. The effective interest rate for the nine months ended September 30, 2022 was 3.58%.

The Company granted a security interest on substantially all of its assets to secure the obligations under the Credit Facility and the Term Loan.

The A&R Credit Agreement also requires the Company to maintain a total net leverage ratio of no more than 4.00 to 1.00 initially, with step downs thereafter. Other terms of the A&R Credit Agreement remain substantially the same as the Credit Agreement. We were in compliance with the A&R Credit Agreement covenants as of September 30, 2022.

In connection with the A&R Credit Agreement, the Company incurred an additional $0.4 million of issuance costs during the three months ended March 31, 2022. These additional costs and the remaining unamortized Term Loan discount and issuance costs will be amortized jointly over the amended remaining life of the A&R Credit Agreement. We recorded $2.1 million and $4.6 million of interest expense on the Term Loan for the three and nine months ended September 30, 2022, respectively. As of September 30, 2022, there was $19.0 million outstanding under the Credit Facility.

Subsequent Event

On October 6, 2022, the Company executed a Second Amended and Restated Credit Agreement (the "Second A&R Credit Agreement") with JPMorgan Chase Bank, N.A. and the Lenders. Pursuant to the Second A&R Credit Agreement, the Lenders agreed to provide the Company with (a) an additional term loan in the aggregate principal amount of $20 million (of which approximately $19 million was used to pay off the Company's existing Credit Facility draw), and (b) an additional $50 million of available borrowing capacity under the revolving credit facility, increasing the aggregate amount available to $120.0 million. The Second A&R Credit Agreement, which replaces the Company's existing secured credit facility, includes substantially similar terms and does not result in any changes to financial covenants, pricing or the February 2027 maturity.

11. STOCKHOLDERS' EQUITY

Stock-Based Compensation

Information with respect to the Company's non-vested restricted stock units for the nine months ended September 30, 2022 was as follows:

	Number of Restricted Stock Units	Weighted-Average Grant-Date Fair Value	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)	Shares Retained to Cover Statutory Minimum Withholding Taxes
Non-vested at January 1, 2022	1,061,834	$16.60			—
Granted	534,419	32.35			—
Vested	(578,107)	15.20			(209,848)
Forfeited	(122,887)	19.01			—
Outstanding at September 30, 2022	895,259	$26.58	0.98	$20,815	

Information with respect to the Company's non-vested performance-based restricted stock units for the nine months ended September 30, 2022 was as follows:

	Number of Performance-based Restricted Stock Units	Weighted-Average Grant-Date Fair Value	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)	Shares Retained to Cover Statutory Minimum Withholding Taxes
Non-vested at January 1, 2022	579,364	$13.20			—
Granted	296,405	22.69			—
Vested	(454,804)	10.19			(200,208)
Forfeited	(64,964)	24.72			—
Non-vested at September 30, 2022	356,001	$22.85	0.94	$8,277	

The following table sets forth stock-based compensation expense by award type for the three and nine months ended September 30, 2022 and 2021 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Share-based compensation expense by type:				
Time-based Restricted Stock Units	$ 2,892	$ 2,507	$ 8,272	$ 7,528
Performance-based Restricted Stock Units	1,007	977	2,598	2,599
ESPP	48	30	144	89
Total share-based compensation expense	$ 3,947	$ 3,514	$ 11,014	$ 10,216

Stock-based compensation was included in the following captions in the Company's condensed consolidated statements of operations for the three and nine months ended September 30, 2022 and 2021 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenues	$ 588	$ 443	$ 1,603	$ 1,361
Research and development expenses	498	340	1,363	1,270
Marketing and selling expenses	743	639	2,141	1,858
General and administrative expenses	2,118	2,092	5,907	5,727
Total share-based compensation expense	$ 3,947	$ 3,514	$ 11,014	$ 10,216

On September 9, 2021, our Board of Directors approved the repurchase of up to $115.0 million of our outstanding shares. This authorization does not have a prescribed expiration date. As of September 30, 2022, approximately $46.3 million of the $115.0 million share repurchase authorization remained available. The Company has no obligation to repurchase any amount of its common stock, and the program may be suspended or discontinued at any time. For the three months ended September 30, 2022, the Company repurchased 757,720 shares of its common stock for $18.6 million. These amounts may differ from the repurchases of common stock amounts in the condensed consolidated statements of cash flows due to unsettled share repurchases at the end of a period.

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

EXECUTIVE OVERVIEW

Business Overview

We develop, market, sell, and support software and integrated solutions for video and audio content creation, management and distribution. We are a leading technology provider that powers the media and entertainment industry. We do this by providing an open and efficient platform for digital media, along with a comprehensive set of tools and workflow solutions. Our solutions 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 communications departments; and by independent video and audio creative professionals, as well as aspiring professionals. Projects produced using our tools, platform, and ecosystem include feature films, television programming, live events, news broadcasts, sports productions, commercials, music, video, and other digital media content. With over one million creative users and thousands of enterprise clients relying on our technology platforms and solutions around the world, Avid enables the industry to thrive in today's connected media and entertainment world.

Our mission is to empower media creators with innovative technology and collaborative tools to entertain, inform, educate, and enlighten the world. Our clients rely on Avid's products and solutions to create prestigious and award-winning feature films, music recordings, television shows, live concerts, sporting events, and news broadcasts. Avid has been honored for technological innovation with 18 Emmy Awards, one Grammy Award, two Oscars, and the first ever America Cinema Editors Technical Excellence Award.

Operations Overview

Our strategy for connecting creative professionals and media enterprises with audiences in a powerful, efficient, collaborative, and profitable way leverages our creative software tools, including Pro Tools for audio, Media Composer for video, Sibelius for musical composition and our MediaCentral Platform - the open, extensible, and customizable foundation that streamlines and simplifies content workflows by integrating all Avid or third-party products and services that run on top of it. The platform provides secure and protected access, and enables fast and easy creation, delivery, and monetization of content.

We work to ensure that we are meeting customer needs, staying ahead of industry trends, and investing in the right areas through a close and interactive relationship with our customer base. The Avid Customer Association was established to be an innovative and influential media technology community. It represents thousands of organizations and over 30,000 professionals from all levels of the industry including inspirational and award-winning thought leaders, innovators, and storytellers. The Avid Customer Association fosters collaboration between Avid, its customers, and other industry colleagues to help shape our product offerings and provide a means to shape our industry together.

A key element of our strategy is our transition to a recurring revenue-based model through a combination of subscription offerings and long-term agreements. As of September 30, 2022, we had approximately 483,000 paid subscriptions. The subscription count includes all paid and active seats under multi-seat licenses. These licensing options offer choices in pricing and deployment to suit our customers' needs. Our subscription offerings to date have been sold to creative professionals and media enterprises. We expect to increase subscription sales to media enterprises going forward as we expand offerings and move through customer upgrade cycles, which we expect will further increase recurring revenue on a longer-term basis. Our long-term agreements are comprised of multi-year agreements with large media enterprise customers to provide specified products and services, including SaaS offerings, and channel partners and resellers to purchase minimum amounts of products and service over a specified period of time.

Avid is committed to our digital transformation initiative, which focuses on optimizing systems, processes, and back-office functions with the objective of improving our operations related to our digital and subscription business. The project started in the third quarter of 2021, and is expected to continue through 2025. We plan to significantly invest in transforming our enterprise-wide infrastructure and technologies to benefit customers and drive enhanced performance across the company.

A summary of our revenue sources for the three and nine months ended September 30, 2022 and 2021 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Subscriptions	$ 41,782	$ 28,008	$ 108,878	$ 74,384
Maintenance	27,280	30,702	83,382	90,997
Subscriptions and Maintenance	69,062	58,710	192,260	165,381
Perpetual Licenses	1,790	5,678	9,729	18,596
Software Licenses and Maintenance	70,852	64,388	201,989	183,977
Integrated solutions	26,267	31,172	82,492	88,699
Professional services & training	5,866	6,080	16,833	18,204
Total revenue	$ 102,985	$ 101,640	$ 301,314	$ 290,880

Recent Developments Affecting Our Business

During the COVID-19 pandemic, our priority has been supporting our employees, customers, partners and communities, while positioning Avid for the future. The pandemic has driven organizations across the globe to digitize their operations and support remote workforces at a faster speed and greater scale than ever before. We have moved towards a hybrid work model in certain countries, giving our employees the flexibility to work offsite or at onsite Avid locations, and we have continued to implement and encourage the benefits of hybrid work as conditions improve in certain countries.

The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, and created significant volatility and disruption of financial markets. We continue to manage through significant supply constraints seen industry-wide due to component shortages caused, in part, by the COVID-19 pandemic, and for which the duration of such constraints is uncertain. The Russian invasion of Ukraine and related acts of aggression and destruction, including destruction of energy and commercial and industrial infrastructure has caused further direct and indirect economic disruption, which may exacerbate supply chain issues further and may lead to prolonged disruption and shortages. These shortages have resulted in increased costs (i.e., component and other commodity costs, freight, expedite fees, etc.) which have had a negative impact on our product gross margin and have resulted in extended lead times for us and our customers.

The extent to which our operations may be impacted will depend largely on future developments, which are highly uncertain and cannot be accurately predicted, including the severity or resurgence of a COVID-19 outbreak, actions by government authorities to contain an outbreak or treat its impact, actions by government authorities to address inflationary and cost pressures, and the severity, length and potential expansion of the conflict in Ukraine. The impacts of these uncertain global economic and geopolitical conditions could result in further supply chain disruptions, including the shortages of critical components, and continued disruptions to, and volatility in, the financial markets. Recent events surrounding the global economy, geopolitics, and the COVID-19 pandemic continue to evolve. Although we believe that we will ultimately emerge from these events well positioned for long-term growth, uncertainties remain and, as such, we cannot reasonably estimate the duration or extent of these adverse factors on our business, results of operations, financial position or cash flows.

CRITICAL ACCOUNTING ESTIMATES

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

We believe that our critical accounting policies and estimates are those related to revenue recognition and allowances for sales returns and exchanges, stock-based compensation, and income tax assets and liabilities. We believe these policies and estimates are critical because they most significantly affect the portrayal of our financial condition and results of operations and involve our most complex and subjective estimates and judgments. A discussion of our critical accounting policies and estimates may be found in our Annual Report on Form 10-K for the year ended December 31, 2021 in Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” under the heading “Critical Accounting Policies and Estimates”.

There have been no significant changes to our critical accounting policies and estimates since our Annual Report on Form 10-K for the year ended December 31, 2021.

RESULTS OF OPERATIONS

The following table sets forth certain items from our condensed consolidated statements of operations as a percentage of net revenues for the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net revenues:				
Subscriptions	40.6 %	27.6 %	36.1 %	25.6 %
Maintenance	26.5 %	30.2 %	27.7 %	31.3 %
Integrated solutions & other	32.9 %	42.2 %	36.2 %	43.1 %
Total net revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues	32.2 %	35.2 %	33.7 %	35.6 %
Gross margin	67.8 %	64.8 %	66.3 %	64.4 %
Operating expenses:				
Research and development	16.6 %	16.8 %	16.6 %	16.7 %
Marketing and selling	23.7 %	24.0 %	23.2 %	22.9 %
General and administrative	13.7 %	14.7 %	14.0 %	14.5 %
Restructuring costs, net	0.1 %	(0.1)%	0.2 %	0.3 %
Total operating expenses	54.1 %	55.4 %	54.0 %	54.4 %
Operating income	13.7 %	9.4 %	12.4 %	10.0 %
Interest expense, net	(2.7)%	(1.6)%	(2.1)%	(1.9)%
Other income, net	— %	7.7 %	— %	1.5 %
Income before income taxes	11.0 %	15.5 %	10.3 %	9.6 %
(Benefit from) provision for income taxes	(0.7)%	1.0 %	0.3 %	0.6 %
Net income	11.7 %	14.5 %	10.0 %	9.0 %

Net Revenues

Our net revenues are derived mainly from sales of subscription software solutions, maintenance contracts, and integrated solutions for digital media content production, management and distribution, and related professional services. We commonly sell large, complex solutions to our customers that, due to their strategic nature, have long lead times where the timing of order execution and fulfillment can be difficult to predict. In addition, the rapid evolution of the media industry is changing our customers' needs, businesses, and revenue models, which is influencing their short-term and long-term purchasing decisions. As a result of these factors, the timing and amount of product revenue recognized related to orders for large, complex solutions, as well as the services associated with them, can fluctuate from quarter to quarter and cause significant volatility in our quarterly operating results. For a discussion of these factors, see the risk factors discussed in Part I, Item 1A under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021.

Net Revenues for the Three Months Ended September 30, 2022 and 2021

(dollars in thousands)

	2022 Net Revenues	Change $	Change %	2021 Net Revenues
Subscriptions	$ 41,782	$ 13,774	49.2%	$ 28,008
Maintenance	27,280	(3,422)	(11.1)%	30,702
Integrated solutions & other	33,923	(9,007)	(21.0)%	42,930
Total net revenues	$ 102,985	$ 1,345	1.3%	$ 101,640

Net Revenues for the Nine Months Ended September 30, 2022 and 2021
(dollars in thousands)

	2022 Net Revenues	Change $	Change %	2021 Net Revenues
Subscriptions	$ 108,878	$ 34,494	46.4%	$ 74,384
Maintenance	83,382	$ (7,615)	(8.4)%	90,997
Integrated solutions & other	$ 109,054	$ (16,445)	(13.1)%	$ 125,499
Total net revenues	$ 301,314	$ 10,434	3.6%	$ 290,880

The following table sets forth the percentage of our net revenues attributable to geographic regions for the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
United States	45%	44%	43%	43%
Europe, Middle East and Africa	36%	38%	37%	38%
Asia-Pacific	13%	13%	13%	14%
Other Americas	6%	5%	7%	5%

Subscription Revenues

Our subscription revenues are derived primarily from sales of our Media Composer, MediaCentral, Pro Tools, and Sibelius offerings. Subscription revenues increased $13.8 million, or 49.2%, for the three months ended September 30, 2022, and increased $34.5 million, or 46.4%, for the nine months ended September 30, 2022, compared to the same periods in 2021. The increases for the three and nine months ended September 30, 2022 were primarily a result of new customers adopting our subscription solutions and customers transitioning from our perpetual product licenses to our subscription-based model.

Maintenance Revenues

Our maintenance revenues are derived from a variety of maintenance contracts for our software and integrated solutions. Maintenance contracts allow each customer to select the level of technical and operational support that they need to maintain their operational effectiveness. Maintenance contracts typically include the right to the latest software updates, call support, and, in some cases, hardware maintenance. Maintenance revenues decreased $3.4 million, or 11.1%, for the three months ended September 30, 2022, and decreased $7.6 million or 8.4% for the nine months ended September 30, 2022, compared to the same periods in 2021. The decreases for the three and nine months ended September 30, 2022 were primarily due to customers transitioning from our perpetual based licenses to our subscription licenses. In addition, there was lower maintenance revenue related to new integrated solutions sales due to delayed integrated solutions shipments as a result of supply chain issues in the nine months ended September 30, 2022 compared to the same period in 2021.

Integrated Solutions and other Revenues

Our integrated solutions and other revenues are derived primarily from sales of our storage and workflow solutions, media management solutions, video creative tools, digital audio software and workstation solutions, and our control surfaces, consoles, and live-sound systems, as well as professional and learning services. Integrated solutions and other revenues decreased $9.0 million or 21.0% for the three months ended September 30, 2022, and decreased $16.4 million or 13.1% for the nine months ended September 30, 2022, compared to the same periods in 2021 as the result of delayed shipments due to supply chain issues as well as customers transitioning from our perpetual product licenses to our subscription-based model.

Cost of Revenues, Gross Profit and Gross Margin Percentage

Cost of revenues consists primarily of costs associated with:

- procurement of components and finished goods;
- assembly, testing and distribution of finished goods;
- warehousing;
- customer support related to maintenance;
- royalties for third-party software and hardware included in our products; and
- professional services and training for customers.

Costs of Revenues and Gross Profit

Costs of Revenues and Gross Profit for the Three Months Ended September 30, 2022 and 2021
(dollars in thousands)

	2022 Costs	Change $	Change %	2021 Costs
Subscriptions	$ 6,163	$ 2,143	53.3%	$ 4,020
Maintenance	4,849	(890)	(15.5)%	5,739
Integrated solutions & other	22,194	(3,784)	(14.6)%	25,978
Total cost of revenues	$ 33,206	$ (2,531)	(7.1)%	$ 35,737
Gross profit	$ 69,779	$ 3,876	5.9%	$ 65,903

Costs of Revenues and Gross Profit for the Nine Months Ended September 30, 2022 and 2021
(dollars in thousands)

	2022 Costs	Change $	Change %	2021 Costs
Subscriptions	$ 18,057	$ 7,847	76.9%	$ 10,210
Maintenance	15,379	(1,756)	(10.2)%	17,135
Integrated solutions & other	67,969	(8,109)	(10.7)%	76,078
Total cost of revenues	$ 101,405	$ (2,018)	(2.0)%	$ 103,423
Gross profit	$ 199,909	$ 12,452	6.6%	$ 187,457

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, and currency exchange-rate fluctuations. For a discussion of these factors, see the risk factors discussed in Part I, Item 1A under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021.

Our increase in gross margin percentage for the three and nine months ended September 30, 2022 compared to the same periods in 2021, was primarily due to increased volume on our higher margin subscription revenue. This was partially offset by lower integrated solutions gross margin due to supply chain issues.

Gross Margin % for the Three Months Ended September 30, 2022 and 2021			
	2022 Gross Margin %	Change	2021 Gross Margin %
Subscription	85.2%	(0.4)%	85.6%
Maintenance	82.2%	0.9%	81.3%
Integrated solutions & other	34.6%	(4.9)%	39.5%
Total	67.8%	3.0%	64.8%

Gross Margin % for the Nine Months Ended September 30, 2022 and 2021			
	2022 Gross Margin %	Change	2021 Gross Margin %
Subscription	83.4%	(2.9)%	86.3%
Maintenance	81.6%	0.4%	81.2%
Integrated solutions & other	37.7%	(1.7)%	39.4%
Total	66.3%	1.9%	64.4%

Operating Expenses and Operating Income

Operating Expenses and Operating Income for the Three Months Ended September 30, 2022 and 2021
(dollars in thousands)

	2022 Expenses	Change $	Change %	2021 Expenses
Research and development	$ 17,110	$ (19)	(0.1)%	$ 17,129
Marketing and selling	24,362	(51)	(0.2)%	24,413
General and administrative	14,066	(835)	(5.6)%	14,901
Restructuring costs, net	158	246	(279.5)%	(88)
Total operating expenses	$ 55,696	$ (659)	(1.2)%	$ 56,355
Operating income	$ 14,083	$ 4,535	47.5%	$ 9,548

Operating Expenses and Operating Income for the Nine Months Ended September 30, 2022 and 2021
(dollars in thousands)

	2022 Expenses	Change $	Change %	2021 Expenses
Research and development	$ 49,869	$ 1,230	2.5%	$ 48,639
Marketing and selling	69,962	3,451	5.2%	66,511
General and administrative	42,241	27	0.1%	42,214
Restructuring costs, net	515	(486)	(48.6)%	1,001
Total operating expenses	$ 162,587	$ 4,222	2.7%	$ 158,365
Operating income	$ 37,322	$ 8,230	28.3%	$ 29,092

Research and Development Expenses

Research and development ("R&D") expenses include costs associated with the development of new products and the enhancement of existing products, and consist primarily of employee compensation and benefits, facilities costs, depreciation, costs for consulting and temporary employees, and prototype and other development expenses. The tables below provide further details regarding the changes in components of research and development expenses.

Change in Research and Development Expenses for the Three Months Ended September 30, 2022 and 2021
(dollars in thousands)

	2022 Increase (Decrease) From 2021	
	$	**%**
Consulting and outside services	1,175	44.5 %
Personnel-related	(987)	(9.5)%
Other	$ (207)	(5.0)%
Total research and development expenses decrease	$ (19)	(0.1)%

Change in Research and Development Expenses for the Nine Months Ended September 30, 2022 and 2021
(dollars in thousands)

	2022 Increase (Decrease) From 2021	
	$	**%**
Consulting and outside services	3,019	40.6 %
Personnel-related	(1,408)	(4.7)%
Other	(381)	(3.3)%
Total research and development expenses increase	$ 1,230	2.5 %

The increase in consulting and outside services for the three and nine months ended September 30, 2022, compared to the same periods in 2021 were primarily due to both an increase in fees as well as increased usage of consultants. The decrease in personnel-related expenses for the three and nine months ended September 30, 2022, compared to the same periods in 2021 were primarily due to increased capitalization of employees' salaries for time spent on internal-use software development as well as a decrease in variable related compensation.

Marketing and Selling Expenses

Marketing and selling expenses consist primarily of employee compensation and benefits for selling, marketing and pre-sales customer support personnel, commissions, travel expenses, advertising and promotional expenses, web design costs, and facilities costs. The tables below provide further details regarding the changes in components of marketing and selling expenses.

Change in Marketing and Selling Expenses for the Three Months Ended September 30, 2022 and 2021
(dollars in thousands)

	2022 (Decrease) Increase From 2021	
	$	%
Consulting and outside services	(1,004)	(59.7)%
Advertising and promotions	568	59.8 %
Other	385	1.8 %
Total marketing and selling expenses decrease	$ (51)	(0.2)%

Change in Marketing and Selling Expenses for the Nine Months Ended September 30, 2022 and 2021
(dollars in thousands)

	2022 Increase From 2021	
	$	%
Personnel-related	1,078	2.2 %
Foreign exchange (gains) and losses	1,055	129.8 %
Advertising and promotions	1,032	45.5 %
Other	286	2.0 %
Total marketing and selling expenses increase	$ 3,451	5.2 %

The decrease in consulting and outside services for the three months ended September 30, 2022 was primarily due to less professional services contractors due to the decrease in product related revenue in 2022. The increase in advertising and promotions for the three and nine months ended September 30, 2022 was primarily due to resuming in person trade shows and events, that were attended remotely in the prior year. The increase in personnel-related expenses for the nine months ended September 30, 2022, compared to the same period in 2021, was primarily the result of resuming travel as well as annual salary increases. The change in foreign exchange translations for the nine months ended September 30, 2022, compared to the same period in 2021, was due to foreign exchange gains and losses from foreign currency denominated transactions and the revaluation of foreign currency denominated assets and liabilities. These foreign exchange changes were primarily due to the euro-dollar and pound-dollar exchange rate volatility. The increase in other expenses for the three and nine months ended September 30, 2022 was related to increased pricing on our third party software subscriptions as well as increased spend on our information technology infrastructure to support ongoing business operations.

General and Administrative Expenses

General and administrative ("G&A") expenses consist primarily of employee compensation and benefits for administrative, executive, finance and legal personnel, audit, legal and strategic consulting fees, and insurance, information systems and facilities costs. Information systems and facilities costs reported within general and administrative expenses are net of allocations to other expenses categories. The tables below provide further details regarding the changes in components of G&A expenses.

Change in G&A Expenses for the Three Months Ended September 30, 2022 and 2021
(dollars in thousands)

	2022 Decrease From 2021	
	$	%
Personnel-related	(451)	(6.0)%
Other	(384)	(5.2)%
Total G&A expenses decrease	$ (835)	(5.6)%

Change in G&A Expenses for the Nine Months Ended September 30, 2022 and 2021

(dollars in thousands)

	2022 Increase (Decrease) From 2021	
	$	**%**
Facilities and information	504	10.9 %
Other	(367)	(2.3)%
Personnel-related	(110)	(0.5)%
Total G&A expenses increase	$ 27	0.1 %

The decrease in personnel-related expenses for the three and nine months ended September 30, 2022, compared to the same periods in 2021, was primarily due to a decrease in variable related compensation, partially offset by annual salary increases. The decrease in other expenses for the three and nine months ended September 30, 2022, compared to the same periods in 2021, was primarily a result of business development activities that have slowed in 2022. The increase in facilities and information technology expenses for the nine months ended September 30, 2022, compared to the same period in 2021, was related to increased spend on our information technology infrastructure to support ongoing business operations.

(Benefit from) Provision for Income Taxes

(Benefit from) Provision for Income Taxes for the Three Months Ended September 30, 2022 and 2021

(dollars in thousands)

	2022	Change		2021
		$	**%**	
(Benefit from) Provision for income taxes	$ (665)	$ (1,656)	(167.1)%	$ 991

Provision for Income Taxes for the Nine Months Ended September 30, 2021 and 2020

(dollars in thousands)

	2022	Change		2021
		$	**%**	
Provision for income taxes	$ 1,187	$ (645)	(35.2)%	$ 1,832

We had a tax benefit of 5.9% and a provision of 3.8% as a percentage of income before tax for the three month and nine month periods ended September 30, 2022, respectively. The decrease for the three month period ended September 30, 2022, compared to the same period in 2021 was primarily driven by the decrease in profit before tax and a discrete tax adjustment related to a tax return to provision true-up in our UK entity. The decrease for the nine-month period ended September 30, 2022, compared to the same period in 2021, was driven primarily by the discrete tax adjustment related to a tax return to provision true-up in our UK entity. No provision or benefit was provided in the United States due to a full valuation on the deferred tax asset.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Sources of Cash

Our principal sources of liquidity include cash and cash equivalents totaling $31.3 million as of September 30, 2022, as well as the availability of borrowings of up to $70.0 million under our revolving Credit Facility. As of September 30, 2022, there was $19.0 million outstanding under the Credit Facility. We have generally funded operations in recent years through the use of existing cash balances, supplemented from time to time with the proceeds of long-term debt and borrowings under our credit facilities.

Avid is committed to our digital transformation initiative, which focuses on optimizing systems, processes, and back-office functions with the objective of improving our operations related to our digital and subscription business. The project started in the third quarter of 2021, has continued through the first half of 2022 and is expected to continue through 2025. We plan to significantly invest in transforming our enterprise-wide infrastructure and technologies to benefit customers and drive enhanced performance across the company.

On January 5, 2021, we entered into the Credit Agreement with JPMorgan Chase Bank, N.A. and a syndicate of banks, as collateral and administrative agent, and the Lenders. Pursuant to the Credit Agreement, the Lenders agreed to provide us with the Term Loan and the Credit Facility. We borrowed the full amount of the Term Loan, or $180.0 million, on the closing date, but did not borrow any of the $70.0 million available under the Credit Facility on the closing date. The proceeds from the Term Loan, plus available cash on hand, were used to repay outstanding borrowings of $201.0 million under the Company's prior credit facility with Cerberus Business Finance, LLC, which was then terminated. Prior to the maturity of the Credit Facility, any amounts borrowed under the Credit Facility may be repaid and, subject to the terms and conditions of the Credit Agreement, reborrowed in whole or in part without penalty.

On February 25, 2022, the Company executed the A&R Credit Agreement with JPMorgan Chase Bank, N.A. and the Lenders. The A&R Credit Agreement extended the term of the Term Loan by approximately one year to February 25, 2027, reduced the applicable interest rate margins by 0.25%, removed the LIBOR floor, moved the reference rate from LIBOR to SOFR, reset the principal amortization schedule, and eliminated the fixed charge coverage ratio. The A&R Credit Agreement contains a financial covenant to maintain a total net leverage ratio of no more than 4.00 to 1.00 initially, with step downs thereafter. Other terms of the A&R Credit Agreement remain substantially the same as the Credit Agreement. The Term Loan, as amended, has an initial interest rate of SOFR plus a 0.10% credit spread adjustment plus an applicable margin of 2.25%, with a 0% floor. The applicable margin for SOFR loans under the A&R Credit Agreement ranges from 1.75% to 3.0%, depending on the Company's total net leverage ratio. Both the Term Loan and the revolving Credit Facility mature on February 25, 2027.

On October 6, 2022, the Company executed a Second Amended and Restated Credit Agreement (the "Second A&R Credit Agreement") with JPMorgan Chase Bank, N.A. and the Lenders. Pursuant to the Second A&R Credit Agreement, the Lenders agreed to provide the Company with (a) an additional term loan in the aggregate principal amount of $20 million (of which approximately $19 million was used to pay off the Company's existing Credit Facility draw), and (b) an additional $50 million of available borrowing capacity under the revolving credit facility, increasing the aggregate amount available to $120.0 million. The Second A&R Credit Agreement, which replaces the Company's existing secured credit facility, includes substantially similar terms and does not result in any changes to financial covenants, pricing or the February 2027 maturity.

Our ability to satisfy the maximum total net leverage ratio covenant in the future depends on our ability to maintain profitability and cash flow in line with prior results. This includes our ability to maintain bookings and billings in line with levels experienced over the last 12 months. In recent quarters, we have experienced volatility in bookings and billings resulting from, among other things, (i) our transition towards subscription and recurring revenue streams and the resulting decline in traditional upfront perpetual software sales, (ii) the rapid evolution of the media industry resulting in changes to our customers' needs, (iii) the impact of new and anticipated product launches and features, and (iv) volatility in currency rates.

In the event revenues in future quarters are lower than we currently anticipate, we may be forced to take remedial actions which could include, among other things (and where allowed by the lenders), (i) further cost reductions, (ii) seeking replacement financing, (iii) raising funds through the issuance of additional equity or debt securities or the incurrence of additional borrowings, or (iv) disposing of certain assets or businesses. Such remedial actions, which may not be available on favorable terms or at all, could have a material adverse impact on our business. If we are not in compliance with the net leverage ratio covenant and are unable to obtain an amendment or waiver, such noncompliance may result in an event of default under the Second A&R Credit Agreement, which could permit acceleration of the outstanding indebtedness under the Second A&R Credit

Agreement and require us to repay such indebtedness before the 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, the lenders may be entitled to foreclose on and sell substantially all of our assets, which secure our borrowings under the Second A&R Credit Agreement.

Our cash requirements vary depending on factors such as the growth of the business, changes in working capital, and capital expenditures. We anticipate that we will have sufficient internal and external sources of liquidity to fund operations and anticipated working capital and other expected cash needs for at least the next 12 months as well as for the foreseeable future. We also believe that our financial resources will allow us to manage the anticipated impact of COVID-19 on our business operations and cash flows for the foreseeable future, which could include reductions in revenue and delays in payments from customers and partners. The challenges posed by COVID-19 on our business are constantly evolving. Consequently, we will continue to evaluate our financial position in light of future developments, particularly those relating to COVID-19.

Cash Flows

The following table summarizes our cash flows for the periods presented (in thousands):

	Nine Months Ended September 30,	
	2022	**2021**
Net cash provided by operating activities	$ 25,563	$ 35,418
Net cash used in investing activities	(11,067)	(4,750)
Net cash used in financing activities	(38,294)	(59,156)
Effect of foreign currency exchange rates on cash, cash equivalents and restricted cash	(1,809)	(927)
Net decrease in cash, cash equivalents and restricted cash	$ (25,607)	$ (29,415)

Cash Flows from Operating Activities

Cash provided by operating activities aggregated $25.6 million for the nine months ended September 30, 2022. The decrease in cash provided by operations compared to the nine months ended September 30, 2021 was primarily due to a change in working capital.

Cash Flows from Investing Activities

For the nine months ended September 30, 2022, net cash flows used in investing activities reflected $11.1 million used for the purchase of property and equipment which largely consist of computer hardware and software to support R&D activities and information systems. In addition, we have increased resources to spend time on the development of internal-use software as we upgrade and improve our back-office applications, as well as development of our cloud related infrastructure.

Cash Flows from Financing Activities

For the nine months ended September 30, 2022, net cash flows used in financing activities were primarily the result of our proceeds on the revolving credit facility, offset by our stock repurchase program and our common stock repurchases for tax withholdings for net settlement of equity awards.

RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements and Recent Accounting Pronouncements To Be Adopted

Our recently adopted and to be adopted accounting pronouncements are set forth in Note 1 “Financial Information” of our Notes to Unaudited Condensed Consolidated Financial Statements under Part I, Item 1 of this Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Foreign Currency Exchange Risk

We have significant international operations and 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 changes in foreign currency exchange rates that could adversely affect our revenues, net income, and cash flow.

We recorded a net foreign exchange loss of $1.9 million and $0.8 million for the nine months ended September 30, 2022 and 2021, respectively. The foreign exchange losses resulted from foreign currency denominated transactions and the revaluation of foreign currency denominated assets and liabilities.

A hypothetical change of 10% in appreciation or depreciation of foreign currency exchange rates from the quoted foreign currency exchange rates as of September 30, 2022 would not have a significant impact on our results of operations. For this purpose, "significant" means an impact of more than a 20% change.

Interest Rate Risk

The Second A&R Credit Agreement had an initial interest rate of SOFR plus a 0.10% credit spread adjustment plus an applicable margin of 2.5%, with a 0% floor. The applicable margin for SOFR loans under the Second A&R Credit Agreement ranges from 1.75% to 3.0%, depending on the Company's total net leverage ratio. A hypothetical 10% increase or decrease in interest rates paid on outstanding borrowings under the Second A&R Credit Agreement would not have a material impact on our financial position, results of operations, or cash flows.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Our management, including the Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2022. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our management concluded that, as of September 30, 2022, these disclosure controls and procedures were effective at a reasonable level of assurance.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarterly period ended September 30, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitation on the Effectiveness of Internal Controls

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 7 “Commitments and Contingencies” of our Notes to Unaudited Condensed Consolidated Financial Statements under Part 1, Item 1 of this Form 10-Q regarding our legal proceedings.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described in Part I, Item 1A under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021 in addition to the other information included in this Form 10-Q before making an investment decision regarding our common stock. If any of these risks actually occurs, our business, financial condition, or operating results would likely suffer, possibly materially, the trading price of our common stock could decline, and you could lose part or all of your investment.

There has been no material change to the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2021.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Share repurchase activity during the three months ended September 30, 2022 was as follows:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced programs	Maximum approximate dollar value of shares that may yet be purchased under the programs
July 1, 2022 - July 31, 2022	—	$ —	—	$ 64,950,864
August 1, 2022 - August 31, 2022	240,333	$ 26.47	240,333	$ 58,589,980
September 1, 2022 - September 30, 2022	517,387	$ 23.66	517,387	$ 46,348,833

See Note 11 of Notes to Unaudited Condensed Consolidated Financial Statements for further information regarding our share repurchase program.

ITEM 6. EXHIBITS

The list of exhibits, which are filed or furnished with this Form 10-Q or are incorporated herein by reference, is set forth in the Exhibit Index immediately preceding the exhibits and is incorporated herein by reference.

EXHIBIT INDEX

Exhibit No.	Description	Filed with this Form 10-Q	Incorporated by Reference		
			Form or Schedule	SEC Filing Date	SEC File Number
3.1	Amended and Restated By-Laws, amended		8-K	March 31, 2017	001-36254
3.2	Amendment to the Amended and Restated By-Laws		10-K	March 9, 2020	001-36254
10.1	Second Amended and Restated Credit Agreement, dated as of October 6, 2022, among Avid Technology, Inc., each of the lenders and financial institutions party thereto, and JPMorgan Chase Bank, N.A., as administrative agent.		8-K	October 13, 2022	001-36254
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
101.INS	eXtensible Business Reporting Language (XBRL) Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
*101.SCH	XBRL Taxonomy Extension Schema Document	X			
*101.CAL	XBRL Taxonomy Calculation Linkbase Document	X			
*101.DEF	XBRL Taxonomy Definition Linkbase Document	X			
*101.LAB	XBRL Taxonomy Label Linkbase Document	X			
*101.PRE	XBRL Taxonomy Presentation Linkbase Document	X			

* Pursuant to Rule 406T of Regulation S-T, XBRL (Extensible Business Reporting Language) information is deemed not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and otherwise is not subject to liability under these sections.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		AVID TECHNOLOGY, INC.	
		(Registrant)	
Date:	November 8, 2022	By:	/s/ Kenneth Gayron
		Name:	Kenneth Gayron
		Title:	Executive Vice President, Chief Financial Officer and Corporate Treasurer

EXHIBIT 31.1

CERTIFICATION

I, Jeff Rosica, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Avid Technology, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2022

/s/ Jeff Rosica

Jeff Rosica
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION

I, Kenneth Gayron, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Avid Technology, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2022

/s/ Kenneth Gayron
Kenneth Gayron
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Avid Technology, Inc. (the “Company”) for the quarter ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Jeff Rosica, President and Chief Executive Officer of the Company, and Kenneth Gayron, Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	November 8, 2022	/s/ Jeff Rosica
		Jeff Rosica
		President and Chief Executive Officer *(Principal Executive Officer)*
Date:	November 8, 2022	/s/ Kenneth Gayron
		Kenneth Gayron
		Executive Vice President and Chief Financial Officer *(Principal Financial Officer)*

A certification furnished pursuant to this item will not be deemed “filed” for purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.