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 June 30, 2021
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 Network Drive
Burlington Massachusetts 01803
Address of Principal Executive Offices, Including Zip Code

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

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

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	o	Accelerated filer	x
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 July 31, 2021, was 45,604,272.

AVID TECHNOLOGY, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2021

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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 effects that the COVID-19 pandemic 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 the COVID-19 pandemic;
- 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 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, or investment transactions and 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;
- the effect of the continuing worldwide macroeconomic uncertainty on our business and results of operations, including Brexit;
- 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;
- fluctuations in foreign exchange and interest rates;

- the risk of restatement of our financial statements;
- estimated asset and liability values;
- our ability to protect and enforce our intellectual property rights;
- 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
- worldwide political uncertainty, in particular the risk that the United States may withdraw from or materially modify international trade agreements.

Actual results and events in future periods may differ materially from those expressed or implied by forward-looking statements in this Form 10-Q. There are a number of factors that could cause actual events or results to differ materially from those indicated or implied by forward-looking statements, many of which are beyond our control, including the risk factors discussed herein and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020, in Part II, Item 1A of this Quarterly Report on Form 10-Q, 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 June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Net revenues:				
Products	$ 37,178	$ 27,635	$ 70,445	$ 62,346
Services	57,698	51,646	118,795	103,388
Total net revenues	94,876	79,281	189,240	165,734
Cost of revenues:				
Products	20,083	16,954	39,576	37,916
Services	14,655	10,765	28,110	23,105
Total cost of revenues	34,738	27,719	67,686	61,021
Gross profit	60,138	51,562	121,554	104,713
Operating expenses:				
Research and development	16,093	13,068	31,510	28,493
Marketing and selling	21,354	19,690	42,098	44,979
General and administrative	13,678	10,604	27,313	23,348
Restructuring costs, net	15	140	1,089	285
Total operating expenses	51,140	43,502	102,010	97,105
Operating income	8,998	8,060	19,544	7,608
Interest and other expense, net	(1,633)	(5,498)	(7,306)	(10,781)
Income (loss) before income taxes	7,365	2,562	12,238	(3,173)
Provision for income taxes	359	717	841	839
Net income (loss)	$ 7,006	$ 1,845	$ 11,397	$ (4,012)
Net income (loss) per common share – basic	$0.15	$0.04	$0.25	$(0.09)
Net income (loss) per common share – diluted	$0.15	$0.04	$0.25	$(0.09)
Weighted-average common shares outstanding – basic	45,211	43,719	44,887	43,486
Weighted-average common shares outstanding – diluted	46,550	44,180	46,420	43,486

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net income (loss)	$ 7,006	$ 1,845	$ 11,397	$ (4,012)
Other comprehensive loss:				
Foreign currency translation adjustments	215	119	(1,242)	(696)
Comprehensive income (loss)	$ 7,221	$ 1,964	$ 10,155	$ (4,708)

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

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

	June 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 53,337	$ 79,899
Restricted cash	1,422	1,422
Accounts receivable, net of allowances of $1,369 and $1,478 at June 30, 2021 and December 31, 2020, respectively	58,746	78,614
Inventories	24,242	26,568
Prepaid expenses	8,774	6,044
Contract assets	21,828	18,579
Other current assets	2,265	2,366
Total current assets	170,614	213,492
Property and equipment, net	14,762	16,814
Goodwill	32,643	32,643
Right of use assets	26,561	29,430
Deferred tax assets, net	6,254	6,801
Other long-term assets	5,871	5,958
Total assets	$ 256,705	$ 305,138
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 21,775	$ 21,823
Accrued compensation and benefits	23,103	29,105
Accrued expenses and other current liabilities	32,904	42,264
Income taxes payable	1,648	1,664
Short-term debt	16,961	4,941
Deferred revenue	80,745	87,974
Total current liabilities	177,136	187,771
Long-term debt	165,178	202,759
Long-term deferred revenue	10,838	11,284
Long-term lease liabilities	25,819	28,462
Other long-term liabilities	7,476	7,786
Total liabilities	386,447	438,062
Commitments and contingencies (Note 7)		
Stockholders' deficit:		
Common stock	452	442
Additional paid-in capital	1,029,675	1,036,658
Accumulated deficit	(1,156,950)	(1,168,347)
Accumulated other comprehensive loss	(2,919)	(1,677)
Total stockholders' deficit	(129,742)	(132,924)
Total liabilities and stockholders' deficit	$ 256,705	$ 305,138

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)
Six Months Ended June 30, 2021

	Shares of Common Stock Outstanding	Common 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	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	513	4	(5,973)	—	—	(5,969)
Stock-based compensation	—	—	3,580	—	—	3,580
Net income	—	—	—	7,006	—	7,006
Other comprehensive loss	—	—	—	—	215	215
Balances at June 30, 2021	45,525	$ 452	$ 1,029,675	$ (1,156,950)	$ (2,919)	$ (129,742)

Six Months Ended June 30, 2020						
	Shares of Common Stock Outstanding	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Deficit
Balances at January 1, 2020	43,150	$ 430	$ 1,027,824	$ (1,179,409)	$ (3,930)	$ (155,085)
Stock issued pursuant to employee stock plans	398	4	(1,818)	—	—	(1,814)
Stock-based compensation	—	—	2,109	—	—	2,109
Net loss	—	—	—	(5,857)	—	(5,857)
Other comprehensive loss	—	—	—	—	(815)	(815)
Balances at March 31, 2020	43,548	434	1,028,115	(1,185,266)	(4,745)	(161,462)
Stock issued pursuant to employee stock plans	368	3	(538)	—	—	(535)
Stock-based compensation	—	—	2,726	—	—	2,726
Net income	—	—	—	1,845	—	1,845
Other comprehensive income	—	—	—	—	934	934
Balances at June 30, 2020	43,916	$ 437	$ 1,030,303	$ (1,183,421)	$ (3,811)	$ (156,492)

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)

	Six Months Ended June 30,	
	2021	**2020**
Cash flows from operating activities:		
Net income (loss)	$ 11,397	$ (4,012)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,321	4,330
Allowance for doubtful accounts	270	1,205
Stock-based compensation expense	6,702	4,835
Non-cash provision for restructuring	927	—
Non-cash interest expense	257	3,433
Loss on extinguishment of debt	2,579	—
Unrealized foreign currency transaction gains	(1,468)	(112)
Benefit from deferred taxes	547	383
Changes in operating assets and liabilities:		
Accounts receivable	19,599	18,783
Inventories	2,326	(484)
Prepaid expenses and other assets	(2,629)	(547)
Accounts payable	(48)	(22,003)
Accrued expenses, compensation and benefits and other liabilities	(14,942)	(4,057)
Income taxes payable	(16)	66
Deferred revenue and contract assets	(10,924)	(10,932)
Net cash provided by (used in) operating activities	18,898	(9,112)
Cash flows from investing activities:		
Purchases of property and equipment	(2,275)	(3,212)
Net cash used in investing activities	(2,275)	(3,212)
Cash flows from financing activities:		
Proceeds from revolving line of credit	—	22,000
Proceeds from long-term debt	180,000	7,800
Repayment of debt	(205,824)	(695)
Payments for repurchase of outstanding notes	—	(28,867)
Proceeds from the issuance of common stock under employee stock plans	363	—
Common stock repurchases for tax withholdings for net settlement of equity awards	(14,038)	(2,357)
Prepayment penalty on extinguishment of debt	(1,169)	—
Unwind capped call cash receipt	—	875
Payments for credit facility issuance costs	(2,574)	(289)
Net cash used in financing activities	(43,242)	(1,533)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	56	682
Net decrease in cash, cash equivalents and restricted cash	(26,563)	(13,175)
Cash, cash equivalents and restricted cash at beginning of period	83,638	72,575
Cash, cash equivalents and restricted cash at end of period	$ 57,075	$ 59,400
Supplemental information:		
Cash and cash equivalents	$ 53,337	$ 55,662
Restricted cash	1,422	1,663
Restricted cash included in other long-term assets	2,316	2,075
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 57,075	$ 59,400
Cash paid for income taxes	$ 336	$ 144
Cash paid for interest	$ 1,308	$ 8,976

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 (loss), 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, 2020 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, 2020 in our Annual Report on Form 10-K for the year ended December 31, 2020, 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, 2020.

The consolidated results of operations for the three months ended June 30, 2021 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2021. The Company’s results of operations are affected by economic conditions, including macroeconomic conditions and levels of business and consumer confidence.

The novel coronavirus (COVID-19) pandemic, together with the measures implemented or recommended by governmental authorities and private organizations in response to the pandemic, has had a material adverse impact to the Company's business, operating results and financial condition primarily due to reduced demand for our products and services which has led to lower net revenues.

The Company began experiencing a significant decline in international and domestic demand due to COVID-19 by the end of the first quarter of 2020, and this reduction in demand continued through the balance of 2020. These economic impacts were the result of, but not limited to:

- the postponement or cancellation of film and television productions, major sporting events, and live music events;
- delays in purchasing and projects by our enterprise customers and channel partners;
- disruption to the supply chain caused by distribution and other logistical issues, including disruptions arising from government restrictions; and
- decreased productivity due to travel restrictions, work-from-home policies or shelter-in-place orders.

Our results for the second quarter showed a gradual recovery towards pre-pandemic spending levels with the continuing positive signs of recovery from the impacts of the COVID-19 pandemic driven by vaccination and government stimulus programs, particularly in the United States. At the same time, certain international countries continue to face challenges with renewed lockdowns and travel restrictions and there remains uncertainty relating to the ongoing spread and severity of the virus and its variants. While we are encouraged by the trends we saw in the first half of the year, to the extent that the pandemic continues to have negative impacts on economies, our results could be affected and uneven. Consequently, we will continue to evaluate our financial position in light of future developments, particularly those relating to COVID-19.

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.

Significant Accounting Policies - ***Revenue Recognition***

We enter into contracts with customers that include various combinations of products and services, which are typically capable of being distinct and are accounted for as separate performance obligations. We account for a contract when (i) it has approval and commitment from both parties, (ii) the rights of the parties have been identified, (iii) payment terms have been identified, (iv) the contract has commercial substance, and (v) collectability is probable. We recognize revenue upon transfer of control of promised products or services to customers, which typically occurs upon shipment or delivery depending on the terms of the underlying contracts, in an amount that reflects the consideration we expect to receive in exchange for those products or services.

We often enter into contractual arrangements that have multiple performance obligations, one or more of which may be delivered subsequent to the delivery of other performance obligations. These arrangements may include a combination of products, maintenance, training, and professional services. We allocate the transaction price of the arrangement based on the relative estimated standalone selling price of each distinct performance obligation.

See Note 9 for disaggregated revenue schedules and further discussion on revenue and deferred revenue performance obligations and the timing of revenue recognition.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

On January 1, 2021, we adopted ASU 2019-12, *Simplifying the Accounting for Income Taxes* (“ASU 2019-12”). ASU 2019-12 is intended to enhance and simplify aspects of the income tax accounting guidance in ASC 740 as part of the FASB's simplification initiative. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2020 with early adoption permitted. Our adoption of ASU 2019-12 did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements To Be Adopted

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 may elect to apply the amendments prospectively through December 31, 2022. The Company is currently evaluating the impact this guidance may have on its consolidated financial statements and related disclosures.

2. NET INCOME (LOSS) PER SHARE

Net income (loss) per common share is presented for both basic income (loss) per share (“Basic EPS”) and diluted income (loss) 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 June 30, 2021 and 2020:

	June 30, 2021	June 30, 2020
Options	—	465
Non-vested restricted stock units	910	3,177
Anti-dilutive potential common shares	910	3,642

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

	Three months ended	Six months ended
Weighted common shares outstanding - basic	45,211	44,887
Net effect of common stock equivalents	1,339	1,533
Weighted common shares outstanding - diluted	46,550	46,420

3. FAIR VALUE MEASUREMENTS

Assets Measured at Fair Value on a Recurring Basis

We measure deferred compensation investments on a recurring basis. As of June 30, 2021 and December 31, 2020, 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		
	June 30, 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	$ 363	$ 97	$ 266	$ —

		Fair Value Measurements at Reporting Date Using		
	December 31, 2020	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	$ 522	$ 282	$ 240	$ —

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):

	June 30, 2021	December 31, 2020
Raw materials	$ 7,023	$ 8,223
Work in process	320	353
Finished goods	16,899	17,992
Total	$ 24,242	$ 26,568

As of June 30, 2021 and December 31, 2020, finished goods inventory included $1.6 million and $1.2 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 seven 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 June 30, 2021, the weighted average incremental borrowing rate was 6.0% and the weighted average remaining lease term was 6.1 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 June 30, 2021, the weighted-average discount rate was 2.3% and the weighted average remaining lease term was 2.2 years.

Lease costs for minimum lease payments is recognized on a straight-line basis over the lease term. Our total operating lease costs were $1.8 million and $2.5 million for the three months ended June 30, 2021 and June 30, 2020, respectively, and $3.7 million and $5.1 million for the six months ended June 30, 2021 and June 30, 2020, respectively. Related cash payments were $1.9 million and $2.2 million for the three months ended June 30, 2021 and June 30, 2020, respectively, and were $4.0 million and $4.8 million for the six months ended June 30, 2021 and June 30, 2020, 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, short-term 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 June 30, 2021 (in thousands):

Year Ending December 31,	Operating Leases	Finance Leases
2021 (excluding six months ended June 30, 2021)	$ 3,718	$ 227
2022	6,570	255
2023	5,639	230
2024	4,954	—
2025	5,056	—
Thereafter	11,731	—
Total future minimum lease payments	$ 37,668	$ 712
Less effects of discounting	(6,483)	(15)
Total lease liabilities	$ 31,185	$ 697

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

Operating Leases	June 30, 2021
Right of use assets	$ 26,561
Accrued expenses and other current liabilities	(5,366)
Long-term lease liabilities	(25,819)
Total lease liabilities	$ (31,185)

Finance Leases	June 30, 2021
Other assets	$ 552
Accrued expenses and other current liabilities	(256)
Other long-term liabilities	(441)
Total lease liabilities	$ (697)

6. OTHER LONG-TERM LIABILITIES

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

	June 30, 2021	December 31, 2020
Deferred compensation	$ 5,565	$ 5,818
Finance lease liabilities	441	472
Other long-term liabilities	1,470	1,496
Total	$ 7,476	$ 7,786

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 $7.1 million of products and services pursuant to this agreement as of June 30, 2021.

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 June 30, 2021, be eligible to draw against the letters of credit to a maximum of $0.7 million in the aggregate. The letters of credit are subject to aggregate reductions provided that we are not in default under the underlying leases and meet certain financial performance conditions. In no case will the letters of credit amounts for the Burlington leases be reduced to below $0.7 million in the aggregate throughout the lease periods.

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 $1.6 million that otherwise support our ongoing operations. These letters of credit have various terms and expire during 2021 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 June 30, 2021.

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 executive’s employment agreement. On April 16, 2019 we received an additional notice again alleging we breached the former executive’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. 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 June 30, 2021 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 of our 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 six months ended June 30, 2021 and 2020 (in thousands):

	Six Months Ended June 30,	
	2021	**2020**
Accrual balance at beginning of period	$ 1,095	$ 1,337
Accruals for product warranties	827	700
Costs of warranty claims	(601)	(673)
Accrual balance at end of period	$ 1,321	$ 1,364

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 2021.

During the three months ended June 30, 2021, we recorded an immaterial amount of restructuring charges for employee severance cost adjustments. During the six months ended June 30, 2021, we recorded restructuring charges of $1.1 million for employee severance costs related to approximately 23 positions eliminated during the first quarter of 2021.

During the three months and six months ended June 30, 2020, we recorded restructuring charges of $0.2 million and $0.3 million, respectively, for employee severance cost adjustments.

The following table sets forth the activity in the restructuring accruals for the six months ended June 30, 2021 (in thousands):

	Employee
Accrual balance as of December 31, 2020	$ 3,687
Restructuring charges and revisions	927
Cash payments	(3,308)
Foreign exchange impact on ending balance	(5)
Accrual balance as of June 30, 2021	$ 1,301

The employee restructuring accrual at June 30, 2021 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 sheets as of June 30, 2021.

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 six months ended June 30, 2021 and 2020 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Products and solutions net revenues	$ 37,178	$ 27,635	$ 70,445	$ 62,346
Subscription services	21,508	16,427	46,376	30,385
Maintenance	30,443	30,570	60,295	62,364
Professional services, training and other services	5,747	4,649	12,124	10,639
Total net revenues	$ 94,876	$ 79,281	$ 189,240	$ 165,734

The following table sets forth our revenues by geographic region for the three and six months ended June 30, 2021 and 2020 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenues:				
United States	$ 41,587	$ 32,886	$ 81,058	$ 68,976
Other Americas	4,629	5,886	9,809	11,336
Europe, Middle East and Africa	34,094	28,706	70,617	61,941
Asia-Pacific	14,566	11,803	27,756	23,481
Total net revenues	$ 94,876	$ 79,281	$ 189,240	$ 165,734

Contract Asset

Contract asset activity for the six months ended June 30, 2021 and 2020 was as follows (in thousands):

	June 30, 2021	June 30, 2020
Contract asset at beginning of year	$ 18,579	$ 19,494
Revenue in excess of billings	27,282	13,155
Customer billings	(24,033)	(14,403)
Contract asset at end of period	$ 21,828	$ 18,246

Deferred Revenue

Deferred revenue activity for the six months ended June 30, 2021 and 2020 was as follows (in thousands):

	June 30, 2021	June 30, 2020
Deferred revenue at beginning of period	$ 99,259	$ 97,901
Billings deferred	46,686	39,334
Recognition of prior deferred revenue	(54,362)	(51,512)
Deferred revenue at end of period	$ 91,583	$ 85,723

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

	June 30, 2021
Product	$ 5,302
Subscription	6,467
Maintenance contracts	71,266
Implied PCS	7,031
Professional services, training and other	1,517
Deferred revenue at June 30, 2021	$ 91,583

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 $7.0 million attributable to Implied PCS recorded in deferred revenue as of June 30, 2021. We expect to recognize revenue for these remaining performance obligations of $1.6 million for the remainder of 2021 and $2.2 million, $1.5 million, $1.0 million and $0.5 million for the years ending December 31, 2022, 2023, 2024, and 2025, respectively, and $0.2 million thereafter.

As of June 30, 2021, we had approximately $45.1 million of transaction price allocated to remaining performance obligations for certain enterprise agreements that have not yet been fully invoiced. Approximately $38.9 million of these performance obligations were unbilled as of June 30, 2021. 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 $45.1 million in roughly equal installments through 2026.

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):

	June 30, 2021	December 31, 2020
Term Loan, net of unamortized issuance costs and debt discount of $2,317 and $2,579 at June 30, 2021 and December 31, 2020, respectively	$ 173,183	$ 198,629
PPP Loan	7,800	7,800
Other long-term debt	1,156	1,271
Total debt	$ 182,139	207,700
Less: current portion	16,961	4,941
Total long-term debt	$ 165,178	$ 202,759

$7,800198,629

The following table summarizes the contractual maturities of our borrowing obligations as of June 30, 2021 (in thousands):

Fiscal Year	Credit Agreement	PPP Loan	Other Long-Term Debt	Total
2021	$ 4,500	—	79	$ 4,579
2022	9,000	7,800	167	16,967
2023	13,500	—	179	13,679
2024	18,000	—	191	18,191
2025	18,000	—	205	18,205
Thereafter	112,500	—	335	112,835
Total before unamortized discount	175,500	7,800	1,156	184,456
Less: unamortized discount and issuance costs	2,317	—	—	2,317
Less: current portion of long-term debt	9,000	7,800	161	16,961
Total long-term debt	$ 164,183	$ —	$ 995	$ 165,178

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 as a result of writing off $2.6 million of remaining unamortized issuance costs as well as a $1.1 million prepayment penalty.

The Term Loan has 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 ranges from 2.00% to 3.25%, depending on leverage. The effective interest rate for the three month period ending June 30, 2021 was 3.13%.

The Term Loan requires quarterly principal payments which commenced in March 2021 equal to 5.0% of the original principal amount of the Term Loan in years one and two, 7.5% of the original principal amount of the Term Loan in year three, and 10% of the original principal amount of the Term Loan in years four and five, with the remaining aggregate principal amount due at maturity.

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 Credit Agreement contains two financial covenants: (i) a requirement to maintain a total net leverage ratio, as defined in the Credit Agreement, of no more than 4.00 to 1.00 through June 30, 2021, with step downs thereafter, and (ii) a requirement to maintain a fixed charge covenant ratio, as defined in the Credit Agreement, of no less than 1.20 to 1.00. Both the Term Loan and the revolving Credit Facility mature on January 5, 2026. We were in compliance with the Credit Agreement covenants as of June 30, 2021.

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 discount and issuance costs will be amortized over the five year life of the Credit Agreement. We recorded $1.4 million and $2.8 million of interest expense on the Term Loan for the three and six months ended June 30, 2021, respectively. As of June 30, 2021, there were no amounts drawn under the Credit Facility.

PPP Loan

On May 11, 2020, the Company received $7.8 million of proceeds in connection with its incurrence of a loan under the Paycheck Protection Program ("PPP") which was created through the Coronavirus Aid, Relief, and Economic Act ("CARES Act") and is administered by the U.S. Small Business Administration ("SBA"). The application for these funds requires the Company to, in good faith, certify that the economic uncertainty at the time of application made the loan request necessary to support the ongoing operations of the Company. This certification further required the Company to take into account its then-current business activity and ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business. The receipt of these funds, and the forgiveness of the loan attendant to these funds, is dependent on the Company having initially qualified for the loan and qualifying for the forgiveness of such loan based on its future adherence to the forgiveness criteria. The loan has a fixed interest rate of 1% and matures on May 11, 2022. Interest payments are deferred until a forgiveness decision is returned by the SBA. We recognized an immaterial amount of interest expense related to the loan during the three and six months ended June 30, 2021.

Pursuant to the CARES Act and implementing rules and regulations, the Company applied to the SBA for the full amount of the PPP loan to be forgiven. On July 6, 2021, the Company received notification from the Lender that the SBA approved the Company's PPP loan forgiveness application for the entire PPP loan balance of $7.8 million plus all accrued interest. The forgiveness of the PPP loan will be recognized during the Company's third quarter ending September 30, 2021.

11. STOCKHOLDERS' EQUITY

Stock-Based Compensation

Information with respect to the Company's option shares granted under all of our stock incentive plans for the six months ended June 30, 2021 was as follows:

	Total Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at January 1, 2021	246,000	$7.48		
Granted	—	—		
Exercised	(246,000)	7.48		
Forfeited or canceled	—	—		
Options outstanding at June 30, 2021	—	$—	0.00	$—

Information with respect to the Company's non-vested restricted stock units for the six months ended June 30, 2021 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, 2021	2,114,879	$7.01			—
Granted	438,295	29.02			—
Vested	(1,003,933)	6.69			(316,222)
Forfeited	(33,683)	7.25			—
Outstanding at June 30, 2021	1,515,558	$13.57	0.98	$59,319	

Information with respect to the Company's non-vested performance-based restricted stock units for the six months ended June 30, 2021 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, 2021	653,428	$6.74			—
Granted	397,048	15.07			—
Vested	(471,112)	5.81			(196,703)
Forfeited	—	—			—
Non-vested at June 30, 2021	579,364	$13.20	1.30	$22,676	

Stock-based compensation was included in the following captions in the Company's condensed consolidated statements of operations for the three and six months ended June 30, 2021 and 2020 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Share-based compensation expense by type:				
Time-based Restricted Stock Units	$ 2,584	$ 1,951	$ 5,021	$ 3,517
Performance-based Restricted Stock Units	966	748	1,622	1,265
ESPP	30	27	59	53
Total share-based compensation expense	$ 3,580	$ 2,726	$ 6,702	$ 4,835

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Cost of products revenues	$ 150	$ 118	$ 291	$ 220
Cost of services revenues	328	158	627	256
Research and development expenses	409	359	930	653
Marketing and selling expenses	617	581	1,219	1,022
General and administrative expenses	2,076	1,510	3,635	2,684
Total share-based compensation expense	$ 3,580	$ 2,726	$ 6,702	$ 4,835

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. In 2018, Avid was named the recipient of the prestigious Philo T. Farnsworth Award by the Television Academy to honor Avid's 30 years of continuous, transformative technology innovations, including products that have improved and accelerated the editing and post production process for television.

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 and Media Composer for video, 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 June 30, 2021, we had approximately 346,000 paid subscriptions. These licensing options offer choices in pricing and deployment to suit our customers' needs. Our subscription offerings to date have mostly been sold to creative professionals, although in the third quarter of 2020 we introduced subscription offerings for our enterprise software solutions. 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.

Another key aspect of our strategy has been to implement programs to increase operational efficiencies and reduce costs. We are making significant changes in business operations to better support the company's strategy and overall performance. We are optimizing our go-to-market strategy, simplifying our strategy to address specific customer markets to help maximize our commercial success, which we expect will improve effectiveness, while increasing efficiency and driving growth of our pipeline and ultimately revenue.

A summary of our revenue sources for the three and six months ended June 30, 2021 and 2020 is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Subscriptions	$ 21,508	$ 16,427	$ 46,376	$ 30,385
Maintenance	30,443	30,570	60,295	62,364
Subscriptions and Maintenance	51,951	46,997	106,671	92,749
Perpetual Licenses	5,860	6,820	12,918	12,192
Software Licenses and Maintenance	57,811	53,817	119,589	104,941
Integrated solutions	31,318	20,815	57,527	50,154
Professional services & training	5,747	4,649	12,124	10,639
Total revenue	$ 94,876	$ 79,281	$ 189,240	$ 165,734

Impact of COVID-19 on Our Business

We have operations in a number of countries, which exposes us to risks associated with public health crises such as the novel coronavirus (COVID-19) that was declared a pandemic by the World Health Organization. COVID-19 adversely impacted our business operations and results of operations for the year ended 2020. These economic impacts are the result of, but not limited to:

- the postponement or cancellation of film and television productions, major sporting events, and live music events;
- delays in purchasing and projects by our enterprise customers and channel partners;
- disruption to the supply chain caused by distribution and other logistical issues, including disruptions arising from government restrictions; and
- decreased productivity due to travel restrictions, work-from-home policies or shelter-in-place orders.

Our results for the first half of 2021 reflect a gradual recovery towards pre-pandemic spending levels with the continuing positive signs of recovery from the impacts of the COVID-19 pandemic driven by vaccination and government stimulus programs, particularly in the US. At the same time, certain international countries around the globe continue to face challenges with renewed lockdowns and travel restrictions and there remains uncertainty relating to the ongoing spread and severity of the virus and its variants. While we are encouraged by the trends we saw in the first half of 2021, to the extent that the pandemic continues to have negative impacts on economies, our results could be affected and uneven. We may be required to take additional steps to preserve our liquidity depending on the duration and severity of the pandemic and its impact on our operations and cash flows. For further discussion of these issues, see “Liquidity and Capital Resources” below.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our condensed consolidated financial statements have been prepared in accordance with 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, discount rates used for lease liabilities, stock-based compensation, income tax assets and liabilities, and restructuring charges and accruals. 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, 2020 in Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” under the heading “Critical Accounting Policies and Estimates” and below. There have been no significant changes to the identification of the accounting policies and estimates that are deemed critical.

Revenue Recognition

We enter into contracts with customers that include various combinations of products and services, which are typically capable of being distinct and are accounted for as separate performance obligations. We account for a contract when (i) it has approval and commitment from both parties, (ii) the rights of the parties have been identified, (iii) payment terms have been identified, (iv) the contract has commercial substance, and (v) collectability is probable. We recognize revenue upon transfer of control of promised products or services to customers, which typically occurs upon shipment or delivery depending on the terms of the underlying contracts, in an amount that reflects the consideration we expect to receive in exchange for those products or services.

We often enter into contractual arrangements that have multiple performance obligations, one or more of which may be delivered subsequent to the delivery of other performance obligations. These arrangements may include a combination of products, maintenance, training, and professional services. We allocate the transaction price of the arrangement based on the relative estimated standalone selling price of each distinct performance obligation.

See Note 9 “Revenue” of our Notes to Condensed Consolidated Financial Statements under Part 1, Item 1 of this Form 10-Q for disaggregated revenue schedules and further discussion on revenue and deferred revenue performance obligations and the timing of revenue recognition.

Leases

We have operating leases for facilities and certain equipment in North America, Europe, and Asia. Our 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 commencement date. As our leases generally do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. An average incremental borrowing rate of 6% as of January 1, 2019, the adoption date of ASC 842, was used for our leases that commenced prior to that date. We determined that the rate of 6% is appropriate for our operating leases after we considered an estimated incremental borrowing rate provided by our bank, the interest rate of our prior credit facility, and the terms and geographic locations of our facilities.

See Note 5 “Leases” of our Notes to Condensed Consolidated Financial Statements under Part 1, Item 1 of this Form 10-Q for further discussion on our leases.

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 six months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net revenues:				
Product	39.2 %	34.9 %	37.2 %	37.6 %
Services	60.8 %	65.1 %	62.8 %	62.4 %
Total net revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues	36.6 %	35.0 %	35.8 %	36.8 %
Gross margin	63.4 %	65.0 %	64.2 %	63.2 %
Operating expenses:				
Research and development	17.0 %	16.5 %	16.7 %	17.2 %
Marketing and selling	22.5 %	24.8 %	22.2 %	27.1 %
General and administrative	14.5 %	13.4 %	14.4 %	14.1 %
Restructuring costs, net	— %	0.2 %	0.6 %	0.2 %
Total operating expenses	54.0 %	54.9 %	53.9 %	58.6 %
Operating income	9.4 %	10.1 %	10.3 %	4.6 %
Interest and other expense, net	(1.7)%	(6.9)%	(3.9)%	(6.5)%
Income (loss) before income taxes	7.7 %	3.2 %	6.4 %	(1.9)%
Provision for income taxes	0.4 %	0.9 %	0.4 %	0.5 %
Net income (loss)	7.3 %	2.3 %	6.0 %	(2.4)%

Net Revenues

Our net revenues are derived mainly from sales of products and solutions for digital media content production, management and distribution, and related professional services and maintenance contracts. We also sell individual licenses for our software products through our webstore. 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 these large orders, 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, 2020.

Net Revenues for the Three Months Ended June 30, 2021 and 2020

(dollars in thousands)

	2021	Change		2020
	Net Revenues	$	%	Net Revenues
Products and solutions	$ 37,178	$ 9,543	34.5%	$ 27,635
Services	57,698	6,052	11.7%	51,646
Total net revenues	$ 94,876	$ 15,595	19.7%	$ 79,281

Net Revenues for the Six Months Ended June 30, 2021 and 2020
(dollars in thousands)

	2021 Net Revenues	Change $	Change %	2020 Net Revenues
Products and solutions	$ 70,445	$ 8,099	13.0%	$ 62,346
Services	118,795	15,407	14.9%	103,388
Total net revenues	$ 189,240	$ 23,506	14.2%	$ 165,734

The following table sets forth the percentage of our net revenues attributable to geographic regions for the three and six months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
United States	44%	41%	43%	42%
Other Americas	5%	7%	5%	7%
Europe, Middle East and Africa	36%	36%	37%	37%
Asia-Pacific	15%	15%	15%	14%

Products and Solutions Revenues

Our products and solutions 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. Products and solutions revenues increased $9.5 million, or 34.5%, for the three months ended June 30, 2021, and increased $8.1 million, or 13.0%, for the six months ended June 30, 2021, compared to the same period in 2020. The increase for the three and six months ended June 30, 2021 was primarily due to higher sales as a result of the economy recovering from the COVID-19 pandemic, which negatively impacted products and solutions revenues in 2020 for the reasons discussed above under "Executive Overview – Impact of COVID-19 on Our Business."

Services Revenues

Services revenues are derived primarily from maintenance contracts, subscription services, and professional services and training. Services revenues increased $6.1 million, or 11.7%, for the three months ended June 30, 2021, and increased $15.4 million, or 14.9% for the six months ended June 30, 2021 compared to the same periods in 2020. The increase for the three and six months ended June 30, 2021 was primarily due to increased subscription services and professional services as a result of the economy recovering from the COVID-19 pandemic, which negatively impacted products and solutions revenues in 2020 for the reasons discussed above under "Executive Overview – Impact of COVID-19 on Our Business."

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 products;
- warehousing;
- customer support related to maintenance;
- royalties for third-party software and hardware included in our products; and
- providing professional services and training.

Costs of Revenues and Gross Profit

Costs of Revenues and Gross Profit for the Three Months Ended June 30, 2021 and 2020 (dollars in thousands)							
	2021 Costs		Change $		Change %		2020 Costs
Products	$	20,083	$	3,129	18.5%	$	16,954
Services		14,655		3,890	36.1%		10,765
Total cost of revenues	$	34,738	$	7,019	25.3%	$	27,719
Gross profit	$	60,138	$	8,576	16.6%	$	51,562

Costs of Revenues and Gross Profit for the Six Months Ended June 30, 2021 and 2020 (dollars in thousands)							
	2021 Costs		Change $		Change %		2020 Costs
Products	$	39,576	$	1,660	4.4%	$	37,916
Services		28,110		5,005	21.7%		23,105
Total cost of revenues	$	67,686	$	6,665	10.9%	$	61,021
Gross profit	$	121,554	$	16,841	16.1%	$	104,713

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, 2020.

Our gross margin percentage for the six months ended June 30, 2021 increased to 64.2% from 63.2% and for the three months ended June 30, 2021 decreased from 65.0% to 63.4%, compared to the same periods in 2020. This fluctuation was primarily due to increased products revenue as a result of higher volumes, offset by the introduction of lower margin subscription products during the second quarter of the year.

Gross Margin % for the Three Months Ended June 30, 2021 and 2020	2021 Gross Margin %	Change	2020 Gross Margin %
Products	46.0%	7.3%	38.7%
Services	74.6%	(4.6)%	79.2%
Total	63.4%	(1.6)%	65.0%

Gross Margin % for the Six Months Ended June 30, 2021 and 2020

	2021 Gross Margin %	Change	2020 Gross Margin %
Products	43.8%	4.6%	39.2%
Services	76.3%	(1.4)%	77.7%
Total	64.2%	1.0%	63.2%

Operating Expenses and Operating Income

Operating Expenses and Operating Income for the Three Months Ended June 30, 2021 and 2020
(dollars in thousands)

	2021 Expenses	Change $	Change %	2020 Expenses
Research and development	$ 16,093	$ 3,025	23.1%	$ 13,068
Marketing and selling	21,354	1,664	8.5%	19,690
General and administrative	13,678	3,074	29.0%	10,604
Restructuring costs, net	15	(125)	(89.3)%	140
Total operating expenses	$ 51,140	$ 7,638	17.6%	$ 43,502
Operating income	$ 8,998	$ 938	11.6%	$ 8,060

Operating Expenses and Operating Income for the Six Months Ended June 30, 2021 and 2020
(dollars in thousands)

	2021 Expenses	Change $	Change %	2020 Expenses
Research and development	$ 31,510	$ 3,017	10.6%	$ 28,493
Marketing and selling	42,098	(2,881)	(6.4)%	44,979
General and administrative	27,313	3,965	17.0%	23,348
Restructuring costs, net	1,089	804	282.1%	285
Total operating expenses	$ 102,010	$ 4,905	5.1%	$ 97,105
Operating income	$ 19,544	$ 11,936	156.9%	$ 7,608

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. R&D expenses increased $3.0 million, or 23.1%, for the three months ended June 30, 2021 and $3.0 million, or 10.6%, for the six months ended June 30, 2021, compared to the same period in 2020. The tables below provide further details regarding the changes in components of R&D expenses.

Change in R&D Expenses for the Three Months Ended June 30, 2021 and 2020

(dollars in thousands)

	2021 Increase (Decrease) From 2020	
	$	**%**
Personnel-related	1,977	25.5 %
Facilities and information technology	486	18.8 %
Consulting and outside services	408	18.7 %
Other	154	28.2 %
Total R&D expenses decrease	$ 3,025	23.1 %

Change in R&D Expenses for the Six Months Ended June 30, 2021 and 2020

(dollars in thousands)

	2021 Increase (Decrease) From 2020	
	$	**%**
Personnel-related	1,969	11.3 %
Facilities and information technology	606	11.2 %
Consulting and outside services	(109)	(2.2)%
Other	551	65.6 %
Total R&D expenses decrease	$ 3,017	10.6 %

The increase in facilities and information technology expenses for the three and six months ended June 30, 2021, compared to the same periods in 2020, were primarily due to the investment in our information technology infrastructure, partially offset by a reduction in our facilities related spending. The increase in consulting and outside services for the three months ended June 30, 2021, compared to the same period in 2020, was primarily the result of R&D external contractor costs utilized for the production of our customer funded development projects which increased in volume this quarter. Those projects were not as utilized in 2020 due to the COVID-19 pandemic, which offset the increase this quarter and resulted in the decrease in consulting and outside services for the six months ended June 30, 2021. The increase in personnel-related expenses for the three and six months ended June 30, 2021, compared to the same periods in 2020, was primarily the result of the wind-down of our employee furlough program, which was implemented in the second quarter of 2020 to reduce costs in response to COVID-19.

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. Marketing and selling expenses increased $1.7 million, or 8.5%, for the three months ended June 30, 2021, and decreased by $2.9 million, or 6.4%, for the six months ended June 30, 2021, compared to the same periods in 2020. 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 June 30, 2021 and 2020
(dollars in thousands)

	2021 Increase (Decrease) From 2020	
	$	%
Personnel-related	2,915	21.9 %
Advertising and promotions	582	228.6 %
Facilities and information technology	(790)	(19.9)%
Foreign exchange (gains) and losses	(203)	(42.8)%
Other	(840)	(50.7)%
Total marketing and selling expenses decrease	$ 1,664	8.5 %

Change in Marketing and Selling Expenses for the Six Months Ended June 30, 2021 and 2020
(dollars in thousands)

	2021 Increase (Decrease) From 2020	
	$	%
Personnel-related	2,192	7.3 %
Facilities and information technology	(1,423)	(17.8)%
Advertising and promotions	363	38.0 %
Foreign exchange (gains) and losses	(738)	(77.9)%
Consulting and outside services	(1,727)	(57.6)%
Other	(1,548)	(78.1)%
Total marketing and selling expenses increase	$ (2,881)	(6.4)%

The increase in personnel-related expenses for the three and six months ended June 30, 2021, compared to the same periods in 2020, was primarily due to an increase in salary expense as a result of a reduction in work force and reduced travel expenses in the 2020 periods as a result of the COVID-19 pandemic. The increase in advertising and promotions expenses for the three and six months ended June 30, 2021, compared to the same periods in 2020, were primarily the result of resuming our programs that were ended in 2020 in response to COVID-19. The decrease in consulting and outside services for the six months ended June 30, 2021 was due to the cancellation of certain trade shows and internal meetings in 2021, which still took place during Q1 2020 before the COVID-19 pandemic began. The decrease in facilities and information technology and other for the three and six months ended June 30, 2021 was primarily the result of a one-time bad debt expense in 2020 and a decrease in our facilities related costs as we continue to decrease our footprint. The decrease in foreign exchange translations for the three and six months ended June 30, 2021, compared to the same periods in 2020, was due to more foreign exchange gains 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 exchange rate volatility.

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. G&A expenses increased $3.1 million, or 29.0%, for the three months ended June 30, 2021, and increased $4.0 million, or 17.0%, for the six months ended June 30, 2021, compared to the same period in 2020. 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 June 30, 2021 and 2020

(dollars in thousands)

	2021 Decrease From 2020	
	$	**%**
Personnel-related	1,655	30.2 %
Consulting and outside services	1,568	82.3 %
Other	(149)	(4.6)%
Total G&A expenses increase	$ 3,074	29.0 %

Change in G&A Expenses for the Six Months Ended June 30, 2021 and 2020

(dollars in thousands)

	2021 Decrease From 2020	
	$	**%**
Personnel-related	2,710	24.2 %
Consulting and outside services	1,499	25.7 %
Other	(244)	(3.9)%
Total G&A expenses decrease	$ 3,965	17.0 %

The increase in personnel-related expenses for the three and six months ended June 30, 2021, compared to the same periods in 2020, was primarily due to increase in salary expense as a result of a reduction in work force and reduced travel expenses in the prior year as a result of the COVID-19 pandemic. The increase in consulting and outside services and other for the three and six months ended June 30, 2021, compared to the same periods in 2020, was primarily a result of resuming our programs that were previously paused in response to COVID-19.

Provision for Income Taxes

Provision for Income Taxes for the Three Months Ended June 30, 2021 and 2020

(dollars in thousands)

	2021	Change		2020
		$	**%**	
Provision for income taxes	$ 359	$ (358)	49.9%	$ 717

Provision for Income Taxes for the Six Months Ended June 30, 2021 and 2020

(dollars in thousands)

	2021	Change		2020
		$	**%**	
Provision for income taxes	$ 841	$ 2	0.2%	$ 839

The changes in the tax provision for the three month and six-month periods ended June 30, 2021 compared to the same periods in 2020 were driven primarily by changes in the jurisdictional mix of earnings. No provision or benefit was provided in the United States due to a full valuation on its deferred tax asset.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Sources of Cash

Our principal sources of liquidity include cash and cash equivalents totaling $53.3 million as of June 30, 2021, as well as the availability of borrowings of up to $70.0 million under our revolving 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.

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. The Credit Agreement contains two financial covenants. The Company is required to maintain a maximum total net leverage ratio, generally defined as the ratio of (x) consolidated total indebtedness minus liquidity maintained in the United States up to $25 million to (y) consolidated EBITDA, not to exceed 4.00 to 1.00 for the fiscal quarters ending March 31, 2021 through June 30, 2021; 3.75 to 1.00 for the fiscal quarters ending September 30, 2021 through December 31, 2021; 3.50 to 1.00 for the fiscal quarters ending March 31, 2022 through June 30, 2022; 3.25 to 1.00 for the fiscal quarters ending September 30, 2022 through December 31, 2022; and 3.00 to 1.00 for fiscal quarters ending on or after March 31, 2023. The Company is also required to maintain a fixed charge coverage ratio not less than 1.20 to 1.00 at the end of each fiscal quarter ending on or after March 31, 2021. The Credit Agreement's fixed charge coverage ratio is generally defined as the ratio of (x) consolidated EBITDA minus unfinanced capital expenditures, cash tax expense and certain restricted payments to (y) consolidated fixed charges.

Our ability to satisfy the two financial covenants in the future is dependent on our ability to maintain profitability at or above levels experienced over the last 12 months. In recent quarters, we have experienced volatility in revenues resulting from, among other things, (i) our transition towards subscription and recurring revenue streams and the resulting decline in traditional upfront product sales, (ii) dramatic changes in the media industry and the impact it has on our customers, (iii) the impact of new and anticipated product launches and features, (iv) volatility in currency rates, and (v) in the four most recent quarters, the economic impacts of the COVID-19 pandemic. If revenues were to decrease from the levels of the last 12 months, we would need to reduce expenses to maintain the required level of profitability. In light of the COVID-19 pandemic, we are closely monitoring our current and expected future liquidity levels and covenant compliance.

As discussed above, while the duration and severity of the COVID-19 pandemic, and resulting economic impacts, remain uncertain, we expect that our business operations and results of operations may be affected and uneven by these developments for at least the balance of 2021. To address actual and expected reductions in net revenues, we have continued to keep our discretionary spending low. We may be required to take additional remedial steps, depending on the duration and severity of the pandemic and its impact on our operations, 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, (iv) disposing of certain assets or businesses, or (v) seeking additional funding under various programs implemented by the U.S. government in response to the COVID-19 pandemic. 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 covenants and are unable to obtain an amendment or waiver, such noncompliance may result in an event of default under the Credit Agreement, which could permit acceleration of the outstanding indebtedness under the 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 Credit Agreement.

On May 11, 2020, we received $7.8 million of proceeds in connection with our incurrence of a loan under the PPP. The loan has a fixed interest rate of 1% and matures on May 11, 2022. Interest payments are deferred until a forgiveness decision is returned by the SBA. Pursuant to the CARES Act and implementing rules and regulations, we applied to the SBA for the full amount of the PPP loan to be forgiven. On July 6, 2021, the Company received notification from the Lender that the SBA approved the

Company's PPP loan forgiveness application for the entire PPP loan balance of $7.8 million plus all accrued interest . The forgiveness of the PPP loan will be recognized during the Company's third quarter ending September 30, 2021.

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 evolving rapidly. 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):

	Six Months Ended June 30,	
	2021	**2020**
Net cash provided by (used in) operating activities	$ 18,898	$ (9,112)
Net cash used in investing activities	(2,275)	(3,212)
Net cash used in financing activities	(43,242)	(1,533)
Effect of foreign currency exchange rates on cash, cash equivalents and restricted cash	56	682
Net decrease in cash, cash equivalents and restricted cash	$ (26,563)	$ (13,175)

<u>*Cash Flows from Operating Activities*</u>

Cash provided by operating activities aggregated $18.9 million for the six months ended June 30, 2021. The increase in cash provided by operations compared to the six months ended June 30, 2020 was primarily due to an increase in revenue and a change in working capital.

<u>*Cash Flows from Investing Activities*</u>

For the six months ended June 30, 2021, net cash flows used in investing activities reflected $2.3 million used for the purchase of property and equipment. Our purchases of property and equipment largely consist of computer hardware and software to support R&D activities and information systems.

<u>*Cash Flows from Financing Activities*</u>

For the six months ended June 30, 2021, net cash flows used in financing activities were primarily the result of our refinancing activity 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 $0.2 million net foreign exchange loss and a $0.5 million net foreign exchange loss for the six months ended June 30, 2021 and 2020, 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 June 30, 2021 would not have a significant impact on our financial position, results of operations, or cash flows.

Interest Rate Risk

On January 5, 2021, the Company entered into the Credit Agreement with JPMorgan Chase Bank, N.A., as collateral and administrative agent, and a syndicate of banks, as lenders thereunder. Pursuant to the Credit Agreement, the Lenders agreed to provide the Company with the Term Loan and the Credit Facility. Under the Credit Agreement, interest accrues on outstanding borrowings at a rate of the Adjusted LIBO Rate, the Adjusted EURIBO Rate or the Alternate Base Rate (each as defined in the Credit Agreement), at the option of the Company, plus a spread of 2.00% to 3.25% for Adjusted LIBO Rate and Adjusted EURIBO Rate loans, with a 0.25% LIBOR floor, and 1.00% to 2.25% for Alternate Base Rate loans, in each case depending on our leverage ratio. As of June 30, 2021, we have $176 million outstanding under the Term Loan. A hypothetical 10% increase or decrease in interest rates paid on outstanding borrowings under the 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 June 30, 2021. 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 June 30, 2021, 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 June 30, 2021, 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, 2020 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, 2020.

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
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:	August 3, 2021	By:	/s/ Kenneth Gayron
		Name:	Kenneth Gayron
		Title:	Executive Vice President and Chief Financial Officer

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: August 3, 2021

/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: August 3, 2021

/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 June 30, 2021 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: August 3, 2021

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

Date: August 3, 2021

/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.