AVID TECHNOLOGY, INC.
Form 10-Q
August 09, 2018

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

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)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 ¨	Accelerated Filer x
Non-accelerated Filer ¨	Smaller Reporting Company ¨
(Do not check if smaller reporting company)	Emerging growth company ¨

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, par value $0.01, as of August 6, 2018 was 41,790,314.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- our ability to successfully implement our strategy, including our cost saving strategies;
- 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;
- anticipated trends relating to our sales, financial condition or results of operations, including our shift to a recurring revenue model and complex enterprise sales with elongated sales cycles;
- 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;
- our anticipated benefits and synergies from, and the anticipated financial impact of, any acquired business;
- the anticipated performance of our products;
- changes in inventory levels;
- plans regarding repatriation of foreign earnings;
- the outcome, impact, costs and expenses of any litigation or government inquiries to which we are or become subject;
- the effect of the continuing worldwide macroeconomic uncertainty on our business and results of operations, including Brexit;
- our ability to accelerate growth of our Cloud-enabled platform;
- our compliance with covenants contained in the agreements governing our indebtedness;
- our ability to service our debt and meet the obligations thereunder, including our ability to satisfy our conversion and repurchase obligations under our convertible notes due 2020;

- seasonal factors;
- fluctuations in foreign exchange and interest rates;
- the risk of restatement of our financial statements;

- estimated asset and liability values and amortization of our intangible assets;
- our capital resources and the adequacy thereof; and
- worldwide political uncertainty, in particular the risk that the United States may withdraw from or materially modify NAFTA or other 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 Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017, in Part II 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 Everywhere, Avid NEXIS, AirSpeed, EUCON, iNEWS, Interplay, MediaCentral, Mbox, Media Composer, NewsCutter, Nitris, Pro Tools, Sibelius and Symphony. Other trademarks appearing in this Form 10-Q are the property of their respective owners.

PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenues:				
Products	$46,379	$47,655	$92,789	$98,661
Services	52,236	54,718	103,763	107,819
Total net revenues	98,615	102,373	196,552	206,480
Cost of revenues:				
Products	26,347	26,489	52,642	50,993
Services	13,986	14,181	27,971	28,275
Amortization of intangible assets	1,950	1,950	3,900	3,900
Total cost of revenues	42,283	42,620	84,513	83,168
Gross profit	56,332	59,753	112,039	123,312
Operating expenses:				
Research and development	15,985	16,991	31,670	35,879
Marketing and selling	27,759	29,018	53,891	54,829
General and administrative	14,041	13,644	27,996	28,075
Amortization of intangible assets	363	363	726	726
Restructuring costs, net	268	6,063	3,175	7,046
Total operating expenses	58,416	66,079	117,458	126,555
Operating loss	(2,084)	(6,326)	(5,419)	(3,243)
Interest and other expense, net	(6,278)	(3,918)	(11,637)	(8,764)
Loss before income taxes	(8,362)	(10,244)	(17,056)	(12,007)
Provision for income taxes	144	587	399	739
Net loss	$(8,506)	$(10,831)	$(17,455)	$(12,746)
Net loss per common share – basic and diluted	$(0.20)	$(0.26)	$(0.42)	$(0.31)
Weighted-average common shares outstanding – basic	41,587	40,953	41,496	40,863
Weighted-average common shares outstanding – diluted	41,587	40,953	41,496	40,863

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net loss	$(8,506)	$(10,831)	$(17,455)	$(12,746)
Other comprehensive income:				
Foreign currency translation adjustments	(2,204)	2,939	(1,056)	4,789
Comprehensive loss	$(10,710)	$(7,892)	$(18,511)	$(7,957)

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, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$60,209	$ 57,223
Restricted cash	8,500	—
Accounts receivable, net of allowances of $1,164 and $11,142 at June 30, 2018 and December 31, 2017, respectively (Note 1)	47,703	40,134
Inventories	31,752	38,421
Prepaid expenses	10,731	8,208
Contract assets	15,544	—
Other current assets	6,867	10,341
Total current assets	181,306	154,327
Property and equipment, net	19,442	21,903
Intangible assets, net	9,057	13,682
Goodwill	32,643	32,643
Long-term deferred tax assets, net	1,282	1,318
Other long-term assets	10,222	10,811
Total assets	$253,952	$ 234,684
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$33,547	$ 30,160
Accrued compensation and benefits	19,024	25,466
Accrued expenses and other current liabilities	39,373	31,549
Income taxes payable	1,720	1,815
Short-term debt	1,400	5,906
Deferred revenue	82,470	121,184
Total current liabilities	177,534	216,080
Long-term debt	230,661	204,498
Long-term deferred revenue	15,228	73,429
Other long-term liabilities	7,403	9,247
Total liabilities	430,826	503,254
Commitments and contingencies (Note 7)		
Stockholders' deficit:		
Common stock	423	423
Additional paid-in capital	1,028,334	1,035,808
Accumulated deficit	(1,193,791)	(1,284,703)
Treasury stock at cost	(8,358)	(17,672)
Accumulated other comprehensive loss	(3,482)	(2,426)
Total stockholders' deficit	(176,874)	(268,570)
Total liabilities and stockholders' deficit	$253,952	$ 234,684

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

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

	Six Months Ended June 30,	
	2018	2017 [1]
Cash flows from operating activities:		
Net loss	$(17,455)	$(12,746)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	10,899	11,531
Recovery for doubtful accounts	(43)	(214)
Stock-based compensation expense	2,255	3,393
Non-cash provision for restructuring	934	2,477
Non-cash interest expense	6,149	5,214
Unrealized foreign currency transaction (gains) losses	(921)	4,763
Provision for (benefit from) deferred taxes	5	(746)
Changes in operating assets and liabilities:		
Accounts receivable	13,525	9,343
Inventories	653	9,482
Prepaid expenses and other assets	2,454	(3,287)
Accounts payable	3,426	980
Accrued expenses, compensation and benefits and other liabilities	(12,275)	(3,419)
Income taxes payable	(37)	991
Deferred revenue	(10,070)	(21,690)
Net cash (used in) provided by operating activities	(501)	6,072
Cash flows from investing activities:		
Purchases of property and equipment	(4,888)	(3,108)
Increase in other long-term assets	(17)	(23)
Net cash used in investing activities	(4,905)	(3,131)
Cash flows from financing activities:		
Proceeds from long-term debt	22,688	—
Repayment of debt	(4,723)	(2,500)
Proceeds from the issuance of common stock under employee stock plans	256	217
Common stock repurchases for tax withholdings for net settlement of equity awards	(649)	(497)
Net cash provided by (used in) financing activities	17,572	(2,780)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(399)	625
Net increase in cash, cash equivalents and restricted cash	11,767	786
Cash, cash equivalents and restricted cash at beginning of period	60,433	49,948
Cash, cash equivalents and restricted cash at end of period	$72,200	$50,734
Supplemental information:		
Cash and cash equivalents	$60,209	$47,434
Restricted cash	8,500	—
Restricted cash included in other long-term assets	3,491	3,300
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$72,200	$50,734
Cash (refunded) paid for income taxes	$(2,051)	$261

Cash paid for interest	$5,829	$4,450

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

(1) The Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2017 has been revised to reflect the adoption, on January 1, 2018, of ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The Condensed Consolidated Statements of Cash Flows reflects the changes during the periods in the total of cash, cash equivalents, and restricted cash. Therefore, restricted cash activity is included with cash when reconciling the beginning-of-period and end-of-period total amounts shown. Refer to Note 1 for further discussion.

AVID TECHNOLOGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. FINANCIAL INFORMATION

The accompanying condensed consolidated financial statements include the accounts of Avid Technology, Inc. and its wholly owned subsidiaries (collectively, “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 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, 2017 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, 2017 in our Annual Report on Form 10-K for the year ended December 31, 2017, 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, 2017.

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.

Subsequent Events

We evaluated subsequent events through the date of issuance of these financial statements and no other subsequent events required recognition or disclosure in these financial statements.

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. The Company accounts 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.

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

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, support, training and professional services. We allocate the transaction price of the arrangement based on the relative estimated standalone selling price (“SSP”) of each distinct performance obligation.

Our process for determining SSP for each performance obligation involves significant management judgment. In determining SSP, we maximize observable inputs and consider a number of data points, including:

- the pricing of standalone sales (in the instances where available);
- the pricing established by management when setting prices for deliverables that are intended to be sold on a standalone basis;
- contractually stated prices for deliverables that are intended to be sold on a standalone basis;

- other pricing factors, such as the geographical region in which the products are sold and expected discounts based on the customer size and type.

Determining SSP for performance obligations which we never sell separately also requires significant judgment. In estimating the SSP, we consider the likely price that would have resulted from established pricing practices had the deliverable been offered separately and the prices a customer would likely be willing to pay.

We only include estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. We reduce transaction prices for estimated returns and other allowances that represent variable consideration under Accounting Standards Codification ("ASC") Topic 606, which we estimate based on historical return experience and other relevant factors, and record a corresponding refund liability as a component of accrued expenses and other current liabilities. Other forms of contingent revenue or variable consideration are infrequent.

While not a common practice for us, in the event we grant the customer the option to acquire additional products or services in an arrangement, we consider if the option provides a material right to the customer that it would not receive without entering into the contract (e.g., an incremental discount compared to the range of discounts typically given for similar products or services). If a material right is deemed to exist, we account for the option as a distinct performance obligation and recognize revenue when those future products or services are transferred or when the option expires.

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

We apply the practical expedient to not adjust the transaction price for the effects of a significant financing component when we expect that the period between when we transfer a good or service to a customer and when the customer pays for that good or service will be one year or less. Payments under our contracts are typically due within in a short period from when our performance obligations are satisfied.

We apply the practical expedient for the deferral of sales commissions and other contract acquisition costs, which are expensed as incurred, where the amortization period would be one year or less.

Recently Adopted Accounting Pronouncements

On January 1, 2018, we adopted ASC Topic 606, Revenue from Contracts with Customers ("ASC 606"), using the modified retrospective method applied to contracts not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC 605. We recorded a net reduction to opening accumulated deficit of approximately $108 million as of January 1, 2018 due to the cumulative impact of adopting ASC 606. The primary impact of ASC 606 that resulted in a significant decrease in deferred revenue is that vendor specific objective evidence of fair value is no longer required to recognize revenue for distinct software products upon delivery, which allows recognition upon delivery rather than on a ratable basis over a period of time.

A summary of the changes to balance sheet line items that resulted from the adoption of ASC 606 as of January 1, 2018 is as follows (in thousands):

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	As of January 1, 2018		
	As Previously Reported	Impact of Adoption of Topic 606 (5)(6)	As Adjusted(6)
Assets:			
Accounts receivable, net(1)	$40,134	$21,088	$61,222
Contract assets(2)	—	6,579	6,579
Inventory(3)	38,421	(5,716)	32,705
Other long-term assets	10,811	865	11,676
Total assets	$234,684	$22,816	$257,500
Liabilities:			
Accrued expenses and other current liabilities (1)	$31,549	$11,139	$42,688
Deferred revenue (current portion) (4)	121,184	(41,611)	79,573
Long-term deferred revenue (4)	73,429	(55,079)	18,350
Total liabilities	$503,254	$(85,551)	$417,703
Stockholders' deficit:			
Accumulated deficit	(1,284,703)	108,367	(1,176,336)
Total stockholders' deficit	$(268,570)	$108,367	$(160,203)

(1) The increase in accounts receivable and accrued expenses and other current liabilities is due to the reclassification of allowances for sales returns, rebates and other adjustments to selling prices that are considered variable consideration under ASC 606 and are now presented as a liability on our balance sheet. Accounts receivable also increased due to advanced contractual support billings now being recorded on a gross basis in accounts receivable when it is due, rather than being net against corresponding unamortized deferred revenue.

(2) For subscription contracts, we are now required under ASC 606 to record contract assets for annual and multi-year subscriptions that are billed monthly, resulting in an increase in contract assets at the date of adoption. In addition, some of our enterprise agreements have fixed payment schedules whereas the timing of the fulfillment of performance obligations under the contracts can vary, which can result in the fulfillment of performance obligations exceeding contract billings, which also results in contract assets.

(3) The reduction is due to inventory and deferred costs that were directly attributable to deferred revenue transactions that were reduced or eliminated due to the adoption of ASC 606 (as described in footnote 4 below), necessitating the elimination of corresponding inventory and deferred costs associated with those deferred revenue transactions.

(4) The reduction is primarily attributable to the elimination of the requirement to have vendor specific objective evidence of fair value for undelivered elements that existed under ASC 985, the prior applicable accounting guidance, for software products, which no longer precludes revenue recognition under ASC 606.

(5) See Note 9 for a further description of the components of revenue and related performance obligations under ASC 606 that resulted in cumulative changes to balance sheet accounts as a result of the adoption of ASC 606.

(6) The impact of the adoption of ASC 606 reported in our Form 10-Q for the three months ended March 31, 2018 has been revised in this filing to reflect an additional reduction to deferred revenue and accumulated deficit as of January 1, 2018 of $3.8 million.

The adoption of Topic 606, as compared to legacy GAAP required for revenue recognition, did not have a significant impact on revenue or net loss for the three and six months ended June 30, 2018. The impact of ASC 606 to balance sheet line items as of June 30, 2018, after reflecting the opening balance sheet adjustments described in detail above, was not material. There was no tax impact associated with the adoption because our deferred tax assets related to deferred revenue have a full valuation allowance.

In March 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU"), No. 2018-05, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin ("SAB") No. 118. The guidance amends SEC paragraphs in ASC 740, Income Taxes, to reflect and codify SAB No. 118, which provides guidance for companies that are not able to complete their accounting for the income tax effects of the Tax Cuts and Jobs Act in the period of enactment. The ASU became effective upon issuance. We had applied SAB 118 upon the original issuance in December, 2017 prior to the codification in ASC 740. See discussion below regarding the status of our accounting for the impacts of the Tax Cuts and Jobs Act (TCJA).

On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was signed into law. The TCJA changed many aspects of U.S. corporate income taxation and included reduction of the corporate income tax rate from 35% to 21% , implementation of a territorial tax system and imposition of a tax on deemed repatriated earnings of foreign subsidiaries. The TCJA was effective as of December 31, 2017 and at that time we made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax. As of June 30, 2018, we have not completed our accounting for the tax effects of the TCJA nor have we recorded any adjustments during the quarter ended June 30, 2018. We will continue to assess our provision for income taxes as future guidance is issued, but do not currently anticipate significant revisions will be necessary. Any such revisions will be treated in accordance with the one year measurement period guidance outlined in Staff Accounting Bulletin No. 118. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions we have made, additional regulatory guidance that may be issued, and actions we may take as a result of the TCJA. The accounting is expected to be complete within the one year measurement period particularly after the 2017 U.S. corporate income tax return is filed in 2018.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flow (Topic 230). The guidance reduces diversity in how certain cash receipts and cash payments are presented and classified in the Statements of Cash Flows. Certain of ASU No. 2016-15 requirements are as follows: (i) cash payments for debt prepayment or debt extinguishment costs should be classified as cash outflows for financing activities, (ii) contingent consideration payments made soon after a business combination should be classified as cash outflows for investing activities and cash payment made thereafter should be classified as cash outflows for financing up to the amount of the contingent consideration liability recognized at the acquisition date with any excess classified as operating activities, (iii) cash proceeds from the settlement of insurance claims should be classified on the basis of the nature of the loss, (iv) cash proceeds from the settlement of Corporate-Owned Life Insurance, or COLI, Policies should be classified as cash inflows from investing activities and cash payments for premiums on COLI policies may be classified as cash outflows for investing activities, operating activities, or a combination of investing and operating activities and (v) cash paid to a tax authority by an employer when withholding shares from an employee's award for tax-withholding purposes should be classified as cash outflows for financing activities. We adopted the guidance on January 1, 2018. The adoption of ASU 2016-15 had no material impact on our consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740). The guidance requires companies to recognize the income tax effects of intercompany sales and transfers of assets, other than inventory, in the income statement as income tax expense (or benefit) in the period in which the transfer occurs. We adopted the guidance on January 1, 2018. The adoption of ASU 2016-16 had no impact on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The guidance requires companies to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, companies will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet is required. We adopted the guidance on January 1, 2018. The adoption of ASU 2016-18 had no material impact on our consolidated financial statements. Restricted cash amounts, presented within the statements of financial position and cash flows, are cash collateralized letters of credit that are used as security deposits in connection with our facility leases and operations.

Recent Accounting Pronouncements to be Adopted

On February 25, 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance requires an entity to recognize virtually all of their leases on the balance sheet, by recording a right-of-use asset and lease liability. The new guidance becomes effective for us on January 1, 2019, and early adoption is permitted upon issuance. We are currently evaluating the impact of this guidance on our consolidated financial statements and have compiled an initial inventory of our leases. These leases are primarily related to office space in the United States and foreign locations and are currently classified as operating leases under generally accepted accounting principles.

2. NET INCOME PER SHARE

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

The potential common shares that were considered anti-dilutive securities were excluded from the diluted earnings per share calculations for the relevant periods either because the sum of the exercise price per share and the unrecognized compensation cost per share was greater than the average market price of our common stock for the relevant period, or because they were considered contingently issuable. The contingently issuable potential common shares result from certain stock options and restricted stock units granted to 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, 2018 and 2017.

	June 30, 2018	June 30, 2017
Options	943	2,382
Non-vested restricted stock units	2,677	3,163
Anti-dilutive potential common shares	3,620	5,545

On June 15, 2015, we issued $125.0 million aggregate principal amount of our 2.00% Convertible Senior Notes due 2020, or the Notes. The Notes are convertible into cash, shares of our common stock or a combination of cash and shares of common stock, at our election, based on an initial conversion rate, subject to adjustment. In connection with the offering of the Notes, we entered into a capped call transaction with a third party. We use the treasury stock method in computing the dilutive impact of the Notes. The Notes are convertible into shares of our common stock but our stock price was less than the conversion price as of June 30, 2018 and 2017, and, therefore, the Notes are excluded from Diluted EPS. The Capped Call is not reflected in diluted net income per share as it will always be anti-dilutive.

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, 2018 and December 31, 2017, 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, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Deferred compensation assets	$ 1,546	$407	$ 1,139	$ —

Fair Value Measurements at Reporting Date Using

	December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Deferred compensation assets	$ 1,743	$484	$ 1,259	$ —

Financial Instruments Not Recorded at Fair Value

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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. As of June 30, 2018, the net carrying amount of the Notes was $107.4 million, and the fair value of the Notes was approximately $108.3 million based on open market trading activity, which constitutes a Level 1 input in the fair value hierarchy.

4. INVENTORIES

Inventories consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Raw materials	$11,311	$ 11,217
Work in process	583	397
Finished goods	19,858	26,807
Total	$31,752	$ 38,421

As of June 30, 2018 and December 31, 2017, finished goods inventory included $4.0 million and $8.2 million, respectively, associated with products shipped to customers and deferred labor costs for arrangements where revenue recognition had not yet commenced. As discussed in Note 1, $5.7 million of inventory was eliminated upon the adoption of ASC 606 on January 1, 2018 as such inventory was directly attributable to deferred revenue transactions that were also eliminated upon adoption.

5. INTANGIBLE ASSETS AND GOODWILL

Amortizing identifiable intangible assets related to our acquisitions or capitalized costs of internally developed or externally purchased software that form the basis for our products consisted of the following (in thousands):

	June 30, 2018			December 31, 2017		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Completed technologies and patents	$58,365	$ (50,728)	$7,637	$58,609	$ (47,072)	$11,537
Customer relationships	54,838	(53,418)	1,420	54,946	(52,801)	2,145
Trade names	1,346	(1,346)	—	1,346	(1,346)	—
Capitalized software costs	4,911	(4,911)	—	4,911	(4,911)	—
Total	$119,460	$ (110,403)	$9,057	$119,812	$ (106,130)	$13,682

Amortization expense related to all intangible assets in the aggregate was $2.3 million for both the three months ended June 30, 2018 and 2017, and $4.6 million for both the six months ended June 30, 2018 and 2017. We expect amortization of acquired intangible assets to be $4.6 million for the remainder of 2018 and $4.4 million in 2019.

The acquisition of Orad in 2015 resulted in goodwill of $32.6 million as of June 30, 2018 and December 31, 2017.

6. OTHER LONG-TERM LIABILITIES

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

	June 30, 2018	December 31, 2017
Deferred rent	$ 1,677	$ 2,970
Accrued restructuring	447	731
Deferred compensation	5,279	5,546
Total	$ 7,403	$ 9,247

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 2017, which included an unconditional commitment to purchase a minimum of $12.8 million of products and services over the initial three-year term of the agreement. We have purchased $3.2 million pursuant to this agreement as of June 30, 2018 to develop Azure certified solutions.

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, 2018, be eligible to draw against the letters of credit to a maximum of $1.3 million in the aggregate. The letters of credit are subject to aggregate reductions provided we are not in default under the underlying leases and meet certain financial performance conditions. In no case will the letters of credit amounts be reduced to below $1.2 million in the aggregate throughout the lease periods, all of which extend to May 2020.

We also have letters of credit in connection with security deposits for other facility leases totaling $1.1 million in the aggregate, as well as letters of credit totaling $1.4 million that otherwise support our ongoing operations. These letters of credit have various terms and expire during 2018 and beyond, while some of the letters of credit may automatically renew based on the terms of the underlying agreements.

We issued a letter of credit totaling $8.5 million to one of our sole-source suppliers in February 2018. The supplier is eligible to draw on the letter of credit in the event that we are insolvent or unable to pay on our purchase orders for certain key hardware components of our product. The letter of credit is valid for one year from its issuance date, and may automatically renew based on the terms of the underlying agreement.

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.

In November 2016, a purported securities class action lawsuit was filed in the U.S. District Court for the District of Massachusetts (Mohanty v. Avid Technology, Inc. et al., No. 16-cv-12336) against us and certain of our executive officers seeking unspecified damages and other relief on behalf of a purported class of purchasers of our common stock between August 4, 2016 and November 9, 2016, inclusive. The complaint purported to state a claim for violation of federal securities laws as a result of alleged violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5

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promulgated thereunder. The complaint's allegations relate generally to our disclosure surrounding the level of implementation of our Avid NEXIS solution product offerings. On February 7, 2017, the Court appointed a lead plaintiff and counsel in the matter. On June 14, 2017, we moved to dismiss the action. On July 31, 2017, the lead plaintiff filed an opposition to our motion to dismiss, and on August 21, 2017, we filed our reply brief. On October 13, 2017, after a mediation, the parties reached an agreement in principle to settle this litigation. The settlement was approved by the court and the settlement payment was made by our insurers in May 2018.

Following the termination of our former Chairman and Chief Executive Officer on February 25, 2018, we received a notice alleging that we breached the former employee's employment agreement. 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.

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, 2018 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, 2018 and 2017 (in thousands):

	Six Months Ended June 30,	
	2018	2017
Accrual balance at beginning of year	$2,545	$2,518
Accruals for product warranties	1,073	1,304
Costs of warranty claims	(1,201)	(1,261)
Accrual balance at end of period	$2,417	$2,561

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 February 2016, we committed to a cost efficiency program that encompassed a series of measures intended to allow us to more efficiently operate in a leaner, more directed cost structure. These included reductions in our workforce, consolidation of facilities, transfers of certain business processes to lower cost regions, and reductions in other third-party services costs. The cost efficiency program was substantially complete as of December 31, 2017.

During the three and six months ended June 30, 2018, we recorded restructuring charges of $0.3 million and $3.2 million, respectively. The restructuring charges for the six months ended June 30, 2018 included $0.8 million of severance costs adjustments, $1.5 million facility restructuring accrual adjustments resulted from the consolidation of our facilities in Burlington, Massachusetts, and $0.9 million of leasehold improvement write-off.

During the three and six months ended June 30, 2017, we recorded restructuring charges of $6.1 million and $7.0 million, respectively. The restructuring charges for the six months ended June 30, 2017 included $2.5 million for the severance costs related to approximately 58 terminated employees, and $4.5 million for the closure of certain excess facility space, including leasehold improvement write-offs and adjustments to sublease assumptions associated with prior abandoned facilities.

Restructuring Summary

The following table sets forth restructuring expenses recognized for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Employee	$687	$1,686	$855	$2,362
Facility	(1,619)	2,373	1,072	2,629
Total facility and employee charges	(932)	4,059	1,927	4,991
Other	1,200	2,004	1,248	2,055
Total restructuring charges, net	$268	$6,063	$3,175	$7,046

The following table sets forth the activity in the restructuring accruals for the six months ended June 30, 2018 (in thousands):

	Employee	Facility	Total
Accrual balance as of December 31, 2017	$ 1,998	$2,479	$4,477
Restructuring charges and revisions	855	1,072	1,927
Accretion	—	96	96
Cash payments	(1,766)	(1,723)	(3,489)
Foreign exchange impact on ending balance	3	1	4
Accrual balance as of June 30, 2018	$ 1,090	$1,925	$3,015
Less: current portion	1,090	1,478	2,568
Long-term accrual balance as of June 30, 2018	$ —	$447	$447

The employee restructuring accrual at June 30, 2018 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, 2018.

The facility restructuring accrual at June 30, 2018 represents contractual lease payments, net of actual or estimated sublease income, on space vacated as part of our restructuring actions. The leases, and payments against the amounts accrued, extend through 2026 unless we are able to negotiate earlier terminations. Of the total facility restructuring balance, $1.5 million is included in the caption “accrued expenses and other current liabilities” and $0.4 million is included in the caption “other long-term liabilities” in our condensed consolidated balance sheet as of June 30, 2018.

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9. REVENUE

Revenue Components and Performance Obligations

Video Products and Solutions

We offer a wide range of video products and solutions from sales of storage and workflow solutions, our media management solutions and our video creative tools, which include our Media Composer, NEXIS, Airspeed, Maestro and Media Central product lines that consist of software licenses or integrated hardware and software solutions. We sell these products to customers under a contract or signed quote and payment terms are generally 30 to 60 days from delivery. Each individual product sold to a customer represents a distinct performance obligation for us and revenue is recognized at the point in time when control of the product transfers, which is typically when the product is shipped to the customer or, in the case of certain software licenses, when the software license term commences and is accessible by the customer.

Audio Products and Solutions

We offer a wide range of audio products and solutions from sales of digital audio software and workstation solutions and our control surfaces, consoles and live-sound systems, which include our Pro Tools, Pro Tools HD, Pro Tools | S6, VENUE | S6L and Sibelius product lines that consist of software licenses or integrated hardware and software solutions. We sell these products to customers under a contract or signed quote and payment terms are generally 30 to 60 days from delivery. Each individual product sold to a customer represents a distinct performance obligation for us and revenue is recognized at the point in time when control of the product transfers, which is typically when the product is shipped to the customer or, in the case of certain software licenses, when the software license term commences and is accessible by the customer.

Subscription Services

We offer subscription versions of many of our software products with monthly, annual and multi-year terms. While we are beginning to offer subscription versions for most of our product portfolio in connection with our cloud strategy, current subscription sales primarily consist of our Media Composer, Pro Tools and Sibelius offerings. We sell these products to customers under standard terms and conditions and payment is due upfront, except for webstore transactions which are billed monthly. Contract assets for annual and multi-year subscriptions billed monthly are recorded on our balance sheet upon customer commitment. Subscription services have several performance obligations, including a right to use the software and stand-ready performance obligations to (i) provide unspecified bug fixes and software enhancements, or Software Updates, and (ii) call support when and if needed. The estimated SSP of the right to use the licensed software is recognized at a point in time once control has been transferred and the customer has the ability to access the software. Stand-ready performance obligations related to Software Updates and call support are satisfied over time and revenue is recognized ratably over the term of the subscription.

Support Services

We offer support contracts, which are typically annual, for our video and audio products. Support contracts for individual products are sold bundled with initial product offerings or as renewals once initial contracts have lapsed. Support contracts are also sold on an enterprise basis where a customer purchases support for all Avid products owned. Support contracts are provided under our standard terms and conditions and payment is due in advance of the support being provided. Support contracts include stand-ready performance obligations to provide (i) Software Updates, (ii) call support and (iii) hardware maintenance. Support contract performance obligations are satisfied over time and revenue is recognized ratably over the term of the support contract.

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.

Professional Services, Training and Other

We sell a variety of professional services, training and other services that complement product and support offerings. Professional services consist primarily of standard configuration, commissioning (i.e., setting up equipment purchased) and on-air support (i.e., monitoring a customer's production environment available during initial system go-live, live sporting events, etc.) and providing customization services for some of our products. We also offer training and certification programs for many of our products and workflows. Other revenues include shipping and handling charges and reimbursable travel expenses. We sell professional services, training and other services under contracts, signed quote and, for larger projects, statements of work that outline the customer's specifications and requirements. Services are primarily sold on a time and materials basis, however, fixed fee arrangements are also executed from time to time. Payments are generally billed upon completion of the service or, for larger projects, on an installment basis as services are rendered. While the nature of service deliverables can vary significantly, each service deliverable generally represents a distinct performance obligation and revenue is recognized over time, typically in proportion of the total hours incurred as a percentage of total estimated hours required to complete the project.

Enterprise Agreements

From time to time, we enter into enterprise wide agreements whereby the customer agrees to purchase specified products and services from us over an extended period of time, often for a single fixed contractual price. For such agreements, management identifies each performance obligation in the contract and allocates the total contract price to each performance obligation based on relative estimated SSP. Once the transaction price is allocated to individual performance obligations, the components are recognized in the respective categories of revenue above consistent with the timing of the recognition of performance obligations described therein.

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, 2018 and 2017 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017[(1)]	2018	2017[(1)]
Video products and solutions net revenues	$26,927	$26,706	$58,501	$55,527
Audio products and solutions net revenues	19,452	20,949	34,288	43,134
Products and solutions net revenues	46,379	47,655	92,789	98,661
Subscription services	8,326	3,865	16,791	7,586
Support services	36,076	43,543	69,836	85,429
Professional services, training and other services	7,834	7,310	17,136	14,804
Services net revenues	52,236	54,718	103,763	107,819
Total net revenues	$98,615	$102,373	$196,552	$206,480

The following table sets forth our revenues by geographic region for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017[(1)]	2018	2017[(1)]
Revenues:				
United States	$38,100	$45,905	$75,648	$82,685
Other Americas	6,364	6,413	12,750	13,204
Europe, Middle East and Africa	40,206	37,986	80,969	80,121
Asia-Pacific	13,945	12,069	27,185	30,470
Total net revenues	$98,615	$102,373	$196,552	$206,480

(1) As a result of our adoption of ASC 606 effective January 1, 2018 using the modified retrospective method, prior period amounts have not been adjusted to conform with ASC 606 and therefore may not be comparable.

Contract Asset

Contract asset activity for the six months ended June 30, 2018 was as follows (in thousands):

	June 30, 2018
Contract asset at January 1, 2018	$6,579
Revenue in excess of billings	14,233
Customer billings	(5,268)
Contract asset at June 30, 2018	$15,544

The increase in contract assets during the six months ended June 30, 2018 is due to (i) continued growth in our subscription offerings and (ii) the timing of payments due under our enterprise network agreements which predominately are payable annually whereas performance obligations are fulfilled on a continuous basis.

Deferred Revenue

Deferred revenue activity for the six months ended June 30, 2018 was as follows (in thousands):

	June 30, 2018
Deferred revenue at January 1, 2018	$101,740
Billings deferred	50,765
Recognition of prior deferred revenue	(54,807)
Deferred revenue at June 30, 2018	$97,698

A summary of the significant performance obligations included in deferred revenue as of June 30, 2018 is as follows (in thousands):

	June 30, 2018
Product	$9,261
Subscription	753
Support Contracts	62,448
Implied PCS	19,043
Professional services, training and other	6,193
Deferred revenue at June 30, 2018	$97,698

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We expect deferred revenue recorded as of June 30, 2018 will be recorded as revenue within the next 12 months, except for Implied PCS performance obligations and long-term support agreements. We expect $6 million, $5 million, $3 million, and $1 million of Implied PCS deferred revenue recorded as of June 30, 2018 will be recognized as revenue for the years ended December 31, 2019, 2020, 2021, and 2022, respectively. We expect $2 million and $1 million of long-term support deferred revenue recorded as of June 30, 2018 will be recognized for the years ended December 31, 2019 and 2020 respectively.

10. LONG-TERM DEBT AND CREDIT AGREEMENT

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

	June 30, 2018	December 31, 2017
Term Loan, net of unamortized debt issuance costs of $2,909 at June 30, 2018 and $3,499 at December 31, 2017	$123,153	$ 102,751
Notes, net of unamortized original issue discount and debt issuance costs of $13,629 at June 30, 2018 and $17,026 at December 31, 2017, respectively	107,371	105,974
Other long-term debt	1,537	1,679
Total debt	232,061	210,404
Less: current portion	1,400	5,906
Total long-term debt	$230,661	$ 204,498

The following table summarizes the maturities of our borrowing obligations as of June 30, 2018 (in thousands):

Fiscal Year	Term Loan	Notes	Other Long-Term Debt	Total
2018	$638	$—	$ 62	$700
2019	1,275	—	132	1,407
2020	2,231	121,000	141	123,372
2021	4,781	—	152	4,933
2022	6,375	—	162	6,537
Thereafter	110,762	—	888	111,650
Total before unamortized discount	126,062	121,000	1,537	248,599
Less: unamortized discount and issuance costs	2,909	13,629	—	16,538
Less: current portion of long-term debt	1,275	—	125	1,400
Total long-term debt	$121,878	$107,371	$ 1,412	$230,661

2.00% Convertible Senior Notes due 2020

On June 15, 2015, we issued $125.0 million aggregate principal amount of our Notes in an offering conducted in accordance with Rule 144A under the Securities Act of 1933. The Notes pay interest semi-annually on June 15 and December 15 of each year at an annual rate of 2.00% and mature on June 15, 2020, unless earlier converted or repurchased in accordance with their terms prior to such date. Total interest expense for the three and six months ended June 30, 2018 was $2.2 million and $4.4 million, respectively, reflecting the coupon and accretion of the discount.

On December 15, 2017, we purchased 2,000 of our 125,000 outstanding Notes and settled $2.0 million of the Notes for $1.7 million in cash. We recorded $2.0 million extinguishment of debt, an immaterial amount of equity reacquisition, and an immaterial loss on the extinguishment of debt.

On February 8, 2018, we purchased an additional 2,000 of our 123,000 outstanding Notes and settled another $2.0 million of the Notes for $1.7 million in cash. We recorded $2.0 million extinguishment of debt, an immaterial amount of equity reacquisition, and an immaterial loss on the extinguishment of debt.

Term Loan and Credit Facility

On February 26, 2016, we entered into the Financing Agreement with the Lenders. Pursuant to the Financing Agreement, the Lenders originally agreed to provide us with (a) a term loan in the aggregate principal amount of $100.0 million (the “Term Loan”), and (b) a revolving credit facility (the “Credit Facility”) of up to a maximum of $5.0 million in borrowings outstanding at any time. We granted a security interest on substantially all of our assets to secure the obligations under the Term Loan and the Credit Facility. The Term Loan requires us to use 50% of excess cash flow, as defined in the Financing Agreement, to repay outstanding principal of the loans under the Financing Agreement. The Financing Agreement contains customary representations and warranties, covenants, mandatory prepayments, and events of default under which our payment obligations may be accelerated.

On November 9, 2017, we entered into an amendment and extended an additional $15.0 million term loan and increased the amount available under the Credit Facility by $5.0 million.

On May 10, 2018, we entered into an amendment to the Financing Agreement, which extended the maturity of the Financing Agreement to May 2023, and increased the Term Loan by $22.7 million and the amount available under the Credit Facility by $12.5 million. Under the terms of the amendment, aggregate quarterly principal repayments beginning September 30, 2018 through June 30, 2020 will be $318,750, then from July 1, 2020 through June 30, 2021 equal to $796,875, finally from July 1, 2021 through May 10, 2023 equal to $1,593,750. Following the amendment effective date, interest accrues on outstanding borrowings under the Term Loan and Credit Facility (each as defined in the Financing Agreement) at a rate of either the LIBOR Rate (as defined in the Financing Agreement) plus 6.625% or a Reference Rate (as defined in the Financing Agreement) plus 5.625%, at our option. The amendment modified the covenant requiring us to maintain a Leverage Ratio (defined to mean the ratio of (a) the sum of indebtedness under the Term Loan and Credit Facility, capitalized leases and non-cash collateralized letters of credit to (b) consolidated EBITDA) of no greater than 3.00:1.00 for the four quarters ended June 30, 2018 through December 31, 2018, 2.50:1.00 for the four quarters ending March 31, 2019 through December 31, 2019, 2.25:1.00 for the four quarters ending March 31, 2020 through March 31, 2021, 2.00:1.00 for the four quarters ending June 30, 2021 through December 31, 2022, respectively, and thereafter declining to 1.50:1.00.

The maximum available credit under the Credit Facility is $22.5 million. There were no amounts outstanding under the Credit Facility as of June 30, 2018. We were in compliance with the Financing Agreement covenants as of June 30, 2018. We recorded $2.7 million and $5.0 million of interest expenses on the Term Loan for the three and six months ended June 30, 2018, respectively.

11. STOCKHOLDERS’ EQUITY

Stock-Based Compensation

Information with respect to option shares granted under all of our stock incentive plans for the six months ended June 30, 2018 was as follows:

Time-Based Shares	Performance-Based Shares