

ELECTRONICS FOR IMAGING INC

Form 10-Q/A

November 27, 2017

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

(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, 2017

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: 000-18805

ELECTRONICS FOR IMAGING, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	94-3086355 (I.R.S. Employer Identification No.)
6750 Dumbarton Circle, Fremont, CA 94555 (Address of principal executive offices) (Zip code)	
(650) 357-3500 (Registrant's telephone number, including area code)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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 of the Exchange Act). (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
Emerging growth company <input type="checkbox"/>	

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 of the Exchange Act). Yes No

The number of shares of Common Stock outstanding as of April 17, 2017 was 46,520,513

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EXPLANATORY NOTE

Electronics For Imaging, Inc. and its subsidiaries (EFI, the Company, we, us, or our) is filing this Amendment No. 1 on Form 10-Q/A (this Amendment) to its Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017, which was originally filed on September 11, 2017 (the Original Filing), to amend and restate Item 4 of Part I, Controls and Procedures, to reflect management's conclusion that our disclosure controls and procedures were not effective at June 30, 2017 due to material weaknesses in our internal control over financial reporting, including one identified subsequent to the issuance of our Original Filing.

With respect to this Amendment No. 1, immaterial misstatements were identified subsequent to the Original Filing in our previously issued financial statements for the quarter ended June 30, 2017. We concluded the misstatements were not material to our financial statements for the years ended December 31, 2015 or 2016, or the quarters ended March 31, 2017 and June 30, 2017; however, due to the effect of recording an out of period correction during the three and nine months ended September 30, 2017, management has determined to prospectively restate our financial statements to give effect to the correction related to the excess and obsolescence and related Italian inventory immaterial misstatements when future financial statements are filed, which is more fully explained below. As a result, we will prospectively correct our financial statements for the years ended December 31, 2015 and 2016 when we file our Form 10-K for the year ended December 31, 2017 and Form 10-Q for the quarter ended September 30, 2017. The impact to net income for the years ended December 31, 2016 and 2015 for these corrections would be a decrease of \$0.6 and \$1.3 million from amounts previously reported of \$45.5 and \$33.5 million, respectively.

Although management has concluded that the immaterial misstatements related to our finished goods inventory reserve at our Italian manufacturing subsidiary were not material to the 2016 financial statements, the possibility existed at December 31, 2016 that the deficiency in our internal controls, identified subsequent to the Original Filing, could have resulted in a material error in our financial results, which may not have been detected in a timely manner. Thus, the related material weakness in our internal controls was identified subsequent to the Original Filing.

As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act), the certifications required by Rule 13a-14(a) under the Exchange Act are also being filed as exhibits to this Amendment. This Amendment should be read in conjunction with the Original Filing, which continues to speak as of the date of the Original Filing. Except as specifically noted above, this Amendment does not modify or update disclosures in the Original Filing. Accordingly, this Amendment does not reflect events occurring after the filing of the Original Filing or modify or update any related or other disclosures, other than those discussed above.

PART I FINANCIAL INFORMATION

**Item 4: Controls and Procedures
Evaluation of Disclosure Controls and Procedures**

As of the quarter ended June 30, 2017, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Exchange Act. Previously, based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of June 30, 2017.

As described in Item 9A. Controls and Procedures of our annual report on Form 10-K/A Amendment No. 2 for the year ended December 31, 2016, management performed its assessment of the effectiveness of our internal control over financial reporting as of December 31, 2016, and concluded that our internal control over financial reporting as of that date was not effective because of the material weaknesses described below.

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Our management determined that, as of December 31, 2016, the following material weaknesses existed in our internal control over financial reporting.

1. Our internal controls were not designed effectively to ensure that operational changes, which may impact revenue recognition, were appropriately and timely evaluated to determine the accounting impact.
2. We did not sufficiently staff, with appropriate levels of experience and training, to allow for the adequate monitoring and timely communication of operational changes, including those which may impact revenue recognition on an ongoing basis.
3. Our internal control over excess and obsolete finished goods printer inventory reserves at our Italian manufacturing subsidiary was not designed effectively to conduct a sufficiently precise evaluation of the classification, condition, and salability of each printer and the cost accounting department was not staffed sufficiently to mitigate limitations relating to these reserves in the ERP system used solely at this subsidiary.

Items #1 and #2 resulted in management not timely identifying and evaluating the appropriate period of recognition for certain revenue transactions related to printers distributed from a single location, which should have been evaluated in accordance with the bill and hold revenue recognition guidance. Item #3 resulted in management not timely evaluating the appropriate period of de-recognition of certain printer inventory manufactured at our Italian manufacturing subsidiary, which should have been subject to an excess and obsolescence impairment or reclassification and depreciation.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected in a timely basis. Because the deficiencies identified could result in a misstatement of revenue, inventory, and related accounts and associated disclosures that could be material to the annual or interim consolidated financial statements, such deficiencies represent material weaknesses in our internal control over financial reporting. Management reevaluated the design and operating effectiveness of our internal control over financial reporting and concluded that its internal control over financial reporting as of December 31, 2016 was not effective due to the material weaknesses described above. Accordingly, management has revised its report on internal control over financial reporting.

Material Weakness Discussion and Remediation

Management analyzed the impact resulting from the identified material weaknesses in Form 10-K/A Amendment No. 1 and concluded that it did not have a material impact on our previously issued consolidated financial statements. Management further analyzed the impact resulting from the additional identified material weakness in our Form 10-K/A Amendment No. 2 and concluded that it did not have a material impact on our previously issued consolidated financial statements. However, due to the effect of recording an out of period correction in the current financial statements, management has determined to prospectively restate our financial statements to give effect to the correction related to the excess and obsolescence and related Italian inventory immaterial misstatements when future financial statements are filed. The impact to net income for the years ended December 31, 2016 and 2015 for this correction would be a decrease of \$0.6 and \$1.3 million from amounts previously reported of \$45.5 and \$33.5 million, respectively.

Notwithstanding the material weaknesses in our internal control over financial reporting, we concluded that the consolidated financial statements and other financial information included in the Form 10-K/A Original and Amended Filings fairly present in all material respects our financial condition, results of operations, and cash flows as of, and for, the periods presented. The foregoing has been approved by our management, including our Chief Executive Officer and Chief Financial Officer, who have been involved with the reassessment and analysis of our internal control over financial reporting.

The material weaknesses did not result in a material misstatement in the financial statements included in our annual report on Form 10-K for the year ended December 31, 2016, as amended, or our condensed consolidated interim financial information for the quarter ended June 30, 2017; however, we concluded that, as of December 31, 2016, and June 30, 2017, there was a reasonable possibility that material misstatements could occur in the consolidated financial statements.

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Deloitte & Touche, LLP, an independent registered public accounting firm, issued an adverse report regarding the effectiveness of our internal control over financial reporting as of December 31, 2016, and that report is included in Item 9A. Controls and Procedures of our annual report on Form 10-K/A Amendment No. 2 for the year ended December 31, 2016.

Plan for Remediation of Material Weaknesses

Following the identification of the foregoing material weaknesses, management commenced implementation of a remediation plan, which is ongoing. Management believes that the implementation of this plan will remediate the material weaknesses described above. The following steps of the remediation plan are currently in process, and management may determine to enhance existing controls and/or implement additional controls as the implementation progresses:

Design and implement controls to properly identify, evaluate and monitor operational changes which may impact revenue recognition;

Evaluate the sufficiency, experience, and training of our internal personnel and hire additional personnel or use external resources;

Design and implement controls related to the approval and accounting for any bill and hold transactions;

Design and implement controls to evaluate excess and obsolete inventory reserves at our Italian subsidiary

Direct our internal auditors to perform additional testing of revenue transactions to ensure the sufficiency of our remediation efforts. We are in the process of further reviewing, documenting, and testing our internal controls over financial reporting, and we may from time to time make changes aimed at enhancing existing controls and/or implementing additional controls. Because the material weaknesses were not identified as of June 30, 2017, management concluded that the material weaknesses described in our annual report on Form 10-K/A Amendment No. 2 for the year ended December 31, 2016 still existed as of June 30, 2017.

Important Considerations

The effectiveness of our disclosure controls and procedures and our internal control over financial reporting is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error, and the risk of fraud. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and the risk that the degree of compliance with policies or procedures may deteriorate over time. Because of these limitations, there can be no assurance that any system of disclosure controls and procedures or internal control over financial reporting will be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management.

Evaluation of Changes in Internal Control over Financial Reporting

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management has evaluated changes in our internal control over financial reporting that occurred during the second quarter of 2017. Based on that evaluation, except for the changes described above, our Chief Executive Officer and Chief Financial Officer did not identify any change in our internal control over financial reporting during the second quarter of 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 6: Exhibits

No.	Description
31.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>

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EXHIBIT INDEX

No.	Description
31.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
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SIGNATURES

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.

Date: November 27, 2017

ELECTRONICS FOR IMAGING, INC.

/s/ Marc Olin
Marc Olin
Chief Financial Officer
(Principal Financial and Accounting Officer)