

AVID TECHNOLOGY, INC.
Form 10-Q
May 10, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from _____ to _____

Commission File Number: 0-21174

Avid Technology, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of

Incorporation or Organization)

04-2977748

(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 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 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

(Do not check if smaller reporting company)

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

The number of shares outstanding of the registrant's Common Stock as of May 7, 2012 was 38,723,542.

AVID TECHNOLOGY, INC.
 FORM 10-Q
 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012

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This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Private Securities Litigation Reform Act of 1995. For this purpose, any statements contained in this quarterly report 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,” “could,” “estimate,” “expect,” “intend,” “confidence,” “may,” “plan,” “should,” “will” and “would,” or similar expressions. Actual results and events in future periods may differ materially from those expressed or implied by these forward-looking statements. There are a number of factors that could cause actual events or results to differ materially from those expressed or implied by forward-looking statements, many of which are beyond our control, including 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, 2011, and as referenced in Part II - Item 1A of this report. In addition, the forward-looking statements contained in this quarterly report represent our estimates only as of the date of this filing and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, whether to reflect actual results, changes in assumptions, changes in other factors affecting such forward-looking statements or otherwise.

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 March 31,	
	2012	2011 (Revised)
Net revenues:		
Products	\$ 119,938	\$ 136,765
Services	32,201	28,988
Total net revenues	152,139	165,753
Cost of revenues:		
Products	61,208	63,867
Services	12,717	14,054
Amortization of intangible assets	650	666
Total cost of revenues	74,575	78,587
Gross profit	77,564	87,166
Operating expenses:		
Research and development	27,482	29,973
Marketing and selling	45,927	45,050
General and administrative	14,638	15,000
Amortization of intangible assets	1,611	2,145
Restructuring costs (recoveries), net	168	(1,476)
Total operating expenses	89,826	90,692
Operating loss	(12,262)	(3,526)
Interest income	129	59
Interest expense	(343)	(422)
Other income (expense), net	20	63
Loss before income taxes	(12,456)	(3,826)
Provision for income taxes, net	521	957
Net loss	\$(12,977)	\$(4,783)
Net loss per common share – basic and diluted	\$(0.34)	\$(0.13)
Weighted-average common shares outstanding – basic and diluted	38,662	38,228

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 March 31,	
	2012	2011 (Revised)
Net loss	\$(12,977)	\$(4,783)
Other comprehensive income:		
Foreign currency translation adjustments, net of taxes	2,425	5,376
Comprehensive (loss) income	\$(10,552)	\$593

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

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

	March 31, 2012	(Revised) December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$49,681	\$32,855
Accounts receivable, net of allowances of \$15,859 and \$15,985 at March 31, 2012 and December 31, 2011, respectively	87,506	104,305
Inventories	103,666	111,397
Deferred tax assets, net	1,482	1,480
Prepaid expenses	9,902	7,652
Other current assets	13,279	14,405
Total current assets	265,516	272,094
Property and equipment, net	52,213	53,487
Intangible assets, net	16,387	18,524
Goodwill	246,884	246,592
Other assets	9,526	11,568
Total assets	\$590,526	\$602,265
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$37,188	\$42,533
Accrued compensation and benefits	22,873	31,750
Accrued expenses and other current liabilities	32,503	35,109
Income taxes payable	8,254	8,951
Deferred revenues	57,908	45,768
Total current liabilities	158,726	164,111
Long-term liabilities	29,121	27,885
Total liabilities	187,847	191,996
Contingencies (Note 10)		
Stockholders' equity:		
Common stock	423	423
Additional paid-in capital	1,021,880	1,019,200
Accumulated deficit	(547,575)	(532,478)
Treasury stock at cost, net of reissuances	(79,899)	(82,301)
Accumulated other comprehensive income	7,850	5,425
Total stockholders' equity	402,679	410,269
Total liabilities and stockholders' equity	\$590,526	\$602,265

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)

	Three Months Ended March 31,	
	2012	2011 (Revised)
Cash flows from operating activities:		
Net loss	\$(12,977)	\$(4,783)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,574	7,892
(Recovery from) provision for doubtful accounts	(77)	144
Non-cash provision for restructuring	—	125
Gain on disposal of fixed assets	(2)	(5)
Compensation expense from stock grants and options	3,133	4,133
Non-cash interest expense	73	80
Unrealized foreign currency transaction losses	2,298	3,785
Changes in deferred tax assets and liabilities, excluding initial effects of acquisitions	372	—
Changes in operating assets and liabilities, excluding initial effects of acquisitions:		
Accounts receivable	16,857	5,280
Inventories	7,731	(16,876)
Prepaid expenses and other current assets	(975)	(1,699)
Accounts payable	(5,376)	107
Accrued expenses, compensation and benefits and other liabilities	(12,338)	(15,242)
Income taxes payable	(766)	(541)
Deferred revenues	13,431	11,544
Net cash provided by (used in) operating activities	18,958	(6,056)
Cash flows from investing activities:		
Purchases of property and equipment, net	(3,588)	(3,545)
Decrease (increase) in other long-term assets	1,318	(617)
Net cash used in investing activities	(2,270)	(4,162)
Cash flows from financing activities:		
(Payments related to) proceeds from the issuance of common stock under employee stock plans, net	(172)	127
Proceeds from revolving credit facilities	1,000	8,000
Payments on revolving credit facilities	(1,000)	(8,000)
Net cash (used in) provided by financing activities	(172)	127
Effect of exchange rate changes on cash and cash equivalents	310	529
Net increase (decrease) in cash and cash equivalents	16,826	(9,562)
Cash and cash equivalents at beginning of period	32,855	42,782
Cash and cash equivalents at end of period	\$49,681	\$33,220
Supplemental information:		
Cash paid for income taxes, net of refunds	\$785	\$2,021

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

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, "Avid" or the "Company"). 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. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and footnotes necessary for a complete presentation of operations, financial position and cash flows of the Company 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, 2011 was derived from the Company's audited consolidated financial statements and revised for errors as described below, but does not include all disclosures required by U.S. GAAP. The Company filed audited consolidated financial statements for, and as of, the year ended December 31, 2011 in its 2011 Annual Report on Form 10-K, which included all 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 the Form 10-K.

The Company's preparation of 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 financial statements and the reported amounts of revenues and expenses during the reported periods. The most significant estimates reflected in these financial statements include revenue recognition, stock-based compensation, accounts receivable and sales allowances, inventory valuation, goodwill and intangible asset valuations, fair value measurements and income tax asset valuation allowances. Actual results could differ from the Company's estimates.

The Company evaluated subsequent events through the date of issuance of these financial statements and, except as disclosed in the "Revised Prior Period Amounts" section below and Note 15, no other recognized or unrecognized subsequent events required recognition or disclosure in these financial statements.

Revised Prior Period Amounts

While preparing its financial statements for the three months ended March 31, 2012, the Company identified and corrected certain errors related to the accounting for an intercompany note made between two of its international subsidiaries that occurred in the fourth quarter of 2007. The Company determined that it should have accrued withholding taxes of approximately \$3.8 million at the time of the loan, and as a result, the Company had understated the provision for income taxes in 2007 and income taxes payable reported on its balance sheets for each period subsequent to the transaction. Additionally, as the tax was not withheld and paid to the taxing authority, the Company is subject to interest and penalties on the unpaid balance, commencing in the three months ended March 31, 2009 and for subsequent periods. Interest and penalties totaled approximately \$1.1 million (\$0.7 million interest and \$0.4 million penalties) and \$1.0 million (\$0.6 million interest and \$0.4 million penalties) at March 31, 2012 and December 31, 2011, respectively. The Company expects to recover the \$3.8 million of withholding taxes in a subsequent period as the amount is refundable, if and when, the intercompany note is repaid. In addition, upon repayment of the intercompany note, the Company would request a refund from the taxing authority for any penalties paid under a voluntary compliance approach, although there can be no assurance that a refund of the penalties will be obtained.

In accordance with SEC Staff Accounting Bulletin Nos. 99 and 108 (“SAB 99” and “SAB 108”), the Company evaluated these errors and, based on an analysis of quantitative and qualitative factors, determined that they were immaterial to each of the prior reporting periods affected and, therefore, amendment of previously filed reports with the Securities and Exchange Commission was not required. However, if the adjustments to correct the cumulative effect of the aforementioned errors and other previously unrecorded immaterial errors had been recorded in the three months ended March 31, 2012, the Company believes the impact would have been significant and would impact comparisons to prior periods. Therefore, as required by SAB 108, the Company has revised in this filing previously reported financial information for each quarter of 2011 and for the years ended December 31, 2011 and 2010. In addition to correcting these withholding tax errors, the Company recorded other adjustments to prior period amounts to correct other previously unrecorded immaterial errors. Also, in accordance with SAB 108, the Company will include this revised financial information when it files subsequent reports on Form 10-Q and Form 10-K or files a registration statement under the Securities Act of 1933.

The Condensed Consolidated Statements of Operations for the years ended December 31, 2011 and 2010 and the three months ended March 31, 2011, June 30, 2011, September 30, 2011 and December 31, 2011 have been revised herein to reflect the effect of the withholding tax errors described above and the other immaterial errors. Revised Condensed Consolidated Statements of Operations for those periods have been presented herein.

The Condensed Consolidated Balance Sheets at December 31, 2011 and 2010 have been revised to reflect the cumulative effect of the errors described above and other immaterial errors. These revisions to the Condensed Consolidated Balance Sheet resulted in increases in accumulated deficit of \$7.9 million, \$8.2 million, and \$6.3 million, respectively, at December 31, 2011, 2010 and 2009. Revised Condensed Consolidated Balance Sheets for December 31, 2011 and 2010 have been presented herein.

The adjustments to the Condensed Consolidated Statement of Cash Flows for each period resulted in immaterial changes to the amounts previously reported for net cash provided by (used in) operating activities, investing activities and financing activities in these periods.

Condensed Consolidated Balance Sheets

At December 31, 2011 and 2010

(in thousands except per share data, unaudited)

	December 31, 2011		December 31, 2010	
	As Reported	As Revised	As Reported	As Revised
ASSETS				
Current assets:				
Cash and cash equivalents	\$32,855	\$32,855	\$42,782	\$42,782
Accounts receivable	104,305	104,305	101,171	102,631
Inventories	111,833	111,397	108,357	106,785
Deferred tax assets, net	1,480	1,480	1,068	757
Prepaid expenses	7,652	7,652	7,688	7,688
Other current assets	14,509	14,405	15,701	15,701
Total current assets	272,634	272,094	276,767	276,344
Property and equipment, net	53,487	53,487	62,519	62,519
Intangible assets, net	18,524	18,524	29,750	29,750
Goodwill	246,398	246,592	246,997	246,997
Other assets	11,568	11,568	10,538	10,538
Total assets	\$602,611	\$602,265	\$626,571	\$626,148
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	\$42,533	\$42,533	\$47,340	\$47,104
Accrued compensation and benefits	31,350	31,750	38,686	38,118
Accrued expenses and other current liabilities	34,174	35,109	40,986	42,059
Income taxes payable	3,898	8,951	4,640	9,823
Deferred revenues	45,768	45,768	43,634	44,173
Total current liabilities	157,723	164,111	175,286	181,277
Long-term liabilities	27,885	27,885	24,675	24,675
Total liabilities	185,608	191,996	199,961	205,952
Stockholders' equity:				
Common stock	423	423	423	423
Additional paid-in capital	1,018,604	1,019,200	1,005,198	1,006,029
Accumulated deficit	(524,530)	(532,478)	(495,254)	(503,485)

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Treasury stock at cost, net of reissuances	(82,301)	(82,301)	(91,025)	(91,025)
Accumulated other comprehensive income	4,807		5,425		7,268		8,254	
Total stockholders' equity	417,003		410,269		426,610		420,196	
Total liabilities and stockholders' equity	\$602,611		\$602,265		\$626,571		\$626,148	

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Condensed Consolidated Statements of Operations
 For the Year Ended December 31, 2011 and 2010
 (in thousands except per share data, unaudited)

	Twelve Months Ended December 31, 2011		Twelve Months Ended December 31, 2010	
	As Reported	As Revised	As Reported	As Revised
Net revenues:				
Products	\$546,371	\$545,470	\$559,907	\$561,123
Services	131,565	131,565	118,615	118,615
Total net revenues	677,936	677,035	678,522	679,738
Cost of revenues: (a)				
Products	255,735	254,522	267,985	269,978
Services	62,482	62,482	56,490	56,490
Amortization of intangible assets	2,693	2,693	3,299	3,299
Total cost of revenues	320,910	319,697	327,774	329,767
Gross profit	357,026	357,338	350,748	349,971
Operating expenses:				
Research and development	118,108	118,108	120,229	120,445
Marketing and selling	183,865	184,288	177,178	177,111
General and administrative	57,851	56,496	64,345	65,424
Amortization of intangible assets	8,528	8,528	9,743	9,743
Restructuring costs (recoveries), net	8,858	10,163	20,450	18,877
Loss on sale of assets	597	597	(5,029)	(5,029)
Total operating expenses	377,807	378,180	386,916	386,571
Operating loss	(20,781)	(20,842)	(36,168)	(36,600)
Interest income	144	144	173	173
Interest expense	(2,053)	(1,930)	(864)	(987)
Other income (expense), net	(159)	(159)	301	301
Loss before income taxes	(22,849)	(22,787)	(36,558)	(37,113)
Provision for income taxes, net	942	721	396	1,796
Net loss	\$(23,791)	\$(23,508)	\$(36,954)	\$(38,909)
Net loss per common share – basic and diluted	\$(0.62)	\$(0.61)	\$(0.98)	\$(1.03)
Weighted-average common shares outstanding – basic and diluted	38,435	38,435	37,895	37,895

Condensed Consolidated Statements of Operations

For the Three Months Ended March 31, 2011, June 30, 2011, September 30, 2011 and December 31, 2011

(in thousands except per share data, unaudited)

	Three Months Ended March 31, 2011		Three Months Ended June 30, 2011		Three Months Ended September 30, 2011		Three Months Ended December 31, 2011	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
	Net revenues:							
Products	\$137,335	\$136,765	\$129,190	\$129,629	\$131,875	\$131,608	\$147,971	\$147,468
Services	28,988	28,988	32,154	32,154	33,090	33,090	37,333	37,333
Total net revenues	166,323	165,753	161,344	161,783	164,965	164,698	185,304	184,801
Cost of revenues:								
Products (a)	64,651	63,867	62,964	64,024	60,048	60,063	66,221	66,568
Services (a)	14,387	14,054	15,312	14,706	16,497	15,585	18,137	18,137
Amortization of intangible assets	666	666	685	685	685	685	657	657
Total cost of revenues	79,704	78,587	78,961	79,415	77,230	76,333	85,015	85,362
Gross profit	86,619	87,166	82,383	82,368	87,735	88,365	100,289	99,439
Operating expenses:								
Research and development	29,973	29,973	30,453	30,453	28,960	28,960	28,722	28,722
Marketing and selling	44,810	45,050	46,052	45,867	45,411	45,395	47,592	47,976
General and administrative	15,298	15,000	14,920	14,219	13,240	13,518	14,393	13,759
Amortization of intangible assets	2,145	2,145	2,161	2,161	2,159	2,159	2,063	2,063
Restructuring costs (recoveries), net	(2,216)	(1,476)	(163)	162	2,707	2,707	8,530	8,770
Loss on sale of assets	—	—	597	597	—	—	—	—
Total operating expenses	90,010	90,692	94,020	93,459	92,477	92,739	101,300	101,290
Operating loss	(3,391)	(3,526)	(11,637)	(11,091)	(4,742)	(4,374)	(1,011)	(1,851)