AVID TECHNOLOGY, INC.
Form 10-Q
August 09, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 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	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 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, 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 x	Accelerated Filer ¨
Non-accelerated Filer ¨ (Do not check if smaller reporting company)	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 x

The number of shares outstanding of the registrant's Common Stock as of August 6, 2012 was 38,852,646.

AVID TECHNOLOGY, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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 June 30,		Six Months Ended June 30,	
	2012	2011 (Revised)	2012	2011 (Revised)
Net revenues:				
Products	$125,874	$129,488	$245,812	$266,234
Services	34,405	32,295	66,607	61,301
Less allowances related to divestitures	(2,848)	—	(2,848)	—
Total net revenues	157,431	161,783	309,571	327,535
Cost of revenues:				
Products	66,642	64,024	127,850	127,888
Services	14,325	14,706	27,042	28,760
Amortization of intangible assets	644	685	1,294	1,351
Restructuring costs	2,633	—	2,633	—
Total cost of revenues	84,244	79,415	158,819	157,999
Gross profit	73,187	82,368	150,752	169,536
Operating expenses:				
Research and development	26,896	30,453	54,377	60,426
Marketing and selling	43,454	45,867	89,380	90,917
General and administrative	13,905	14,219	28,796	29,219
Amortization of intangible assets	1,105	2,161	2,717	4,306
Restructuring costs (recoveries), net	15,841	162	16,009	(1,314)
Loss on sale of assets	9,951	597	9,699	597
Total operating expenses	111,152	93,459	200,978	184,151
Operating loss	(37,965)	(11,091)	(50,226)	(14,615)
Interest income	14	9	115	68
Interest expense	(405)	(594)	(720)	(1,016)
Other income (expense), net	12	(60)	32	3
Loss before income taxes	(38,344)	(11,736)	(50,799)	(15,560)
Provision for (benefit from) income taxes, net	903	(590)	1,426	367
Net loss	$(39,247)	$(11,146)	$(52,225)	$(15,927)
Net loss per common share – basic and diluted	$(1.01)	$(0.29)	$(1.35)	$(0.42)
Weighted-average common shares outstanding – basic and diluted	38,778	38,413	38,720	38,323

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011 (Revised)	2012	2011 (Revised)
Net loss	$(39,247)	$(11,146)	$(52,225)	$(15,927)
Other comprehensive income:				
Foreign currency translation adjustments, net of taxes	(3,611)	2,152	(1,186)	7,524
Comprehensive loss	$(42,858)	$(8,994)	$(53,411)	$(8,403)

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, 2012	(Revised) December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$59,383	$32,855
Accounts receivable, net of allowances of $19,177 and $15,985 at June 30, 2012 and December 31, 2011, respectively	89,180	104,305
Inventories	77,032	111,397
Deferred tax assets, net	1,462	1,480
Prepaid expenses	8,580	7,652
Assets held for sale	12,940	—
Other current assets	15,948	14,405
Total current assets	264,525	272,094
Property and equipment, net	48,976	53,487
Intangible assets, net	10,996	18,524
Goodwill	238,338	246,592
Other assets	8,496	11,568
Total assets	$571,331	$602,265
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$38,990	$42,533
Accrued compensation and benefits	26,411	31,750
Accrued expenses and other current liabilities	46,023	35,108
Income taxes payable	10,877	8,950
Deferred revenues	57,015	45,768
Total current liabilities	179,316	164,109
Long-term liabilities	29,704	27,885
Total liabilities	209,020	191,994
Contingencies (Note 11)		
Stockholders' equity:		
Common stock	423	423
Additional paid-in capital	1,024,082	1,019,200
Accumulated deficit	(588,426)	(532,477)
Treasury stock at cost, net of reissuances	(78,008)	(82,301)
Accumulated other comprehensive income	4,240	5,426
Total stockholders' equity	362,311	410,271
Total liabilities and stockholders' equity	$571,331	$602,265

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,	
	2012	2011 (Revised)
Cash flows from operating activities:		
Net loss	$(52,225)	$(15,927)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	16,184	15,721
(Recovery from) provision for doubtful accounts	(62)	459
Non-cash provision for restructuring	2,633	125
Non-cash allowance for divestiture	2,848	—
Loss on divestitures	9,951	597
Loss on disposal of fixed assets	(256)	(8)
Compensation expense from stock grants and options, net	5,374	8,150
Non-cash interest expense	73	154
Unrealized foreign currency transaction (gains) losses	(848)	6,490
Changes in deferred tax assets and liabilities, excluding initial effects of acquisitions	823	(4)
Changes in operating assets and liabilities, excluding initial effects of acquisitions:		
Accounts receivable	12,317	2,783
Inventories	20,967	(22,161)
Prepaid expenses and other current assets	(2,317)	142
Accounts payable	(3,531)	(2,389)
Accrued expenses, compensation and benefits and other liabilities	5,060	(17,658)
Income taxes payable	2,170	(1,968)
Deferred revenues	13,171	11,410
Net cash provided by (used in) operating activities	32,332	(14,084)
Cash flows from investing activities:		
Purchases of property and equipment, net	(5,237)	(6,078)
Increase in other long-term assets	(161)	(176)
Net cash used in investing activities	(5,398)	(6,254)
Cash flows from financing activities:		
Proceeds from the issuance of common stock under employee stock plans, net	80	1,349
Proceeds from revolving credit facilities	1,000	21,000
Payments on revolving credit facilities	(1,000)	(8,000)
Net cash provided by financing activities	80	14,349
Effect of exchange rate changes on cash and cash equivalents	(486)	764
Net increase (decrease) in cash and cash equivalents	26,528	(5,225)
Cash and cash equivalents at beginning of period	32,855	42,782
Cash and cash equivalents at end of period	$59,383	$37,557
Supplemental information:		
Cash paid for income taxes, net of refunds	$957	$2,541
Reclassifications to assets held-for-sale	$12,940	$—

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, as well as the condensed consolidated financial statements in the Form 10-Q for the period ended March 31, 2012 as it pertains to the "Revised Prior Period Amounts" section below. Certain prior period amounts disclosed in these financial statements have also been reclassified to conform to the current year presentation. None of these reclassifications or changes in presentation is considered material.

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, loss on assets held-for-sale, fair value measurements, restructuring charges 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 "Subsequent Divestiture of Consumer Audio and Video Businesses and 2012 Restructuring Plan" section below, no other recognized or unrecognized subsequent events required recognition or disclosure in these financial statements.

Subsequent Divestiture of Consumer Audio and Video Businesses and 2012 Restructuring Plan

On July 2, 2012, the Company announced a series of strategic actions that it had initiated to focus on its Media Enterprise and Professionals and Post market segments and to drive improved operating performance. These actions include the divestiture of certain of the Company's consumer focused product lines, a rationalization of the business operations and a reduction in force.
As part of these actions, on July 2, 2012, the Company sold a group of consumer audio products to Numark Industries, L.P. ("Numark") for approximately $11.8 million and sold a group of consumer video products to Corel Corporation ("Corel") for approximately $3.0 million. The consumer audio products that were sold include M-Audio brand keyboards, controllers, certain interfaces, speakers and digital DJ equipment and other product lines, as well as certain associated intellectual property, including the M-Audio trademark. Avid will continue to develop and sell its Pro Tools line of software and hardware, as well as certain associated I/O devices including Mbox and Fast Track. The

consumer video products that were sold include the Pinnacle and Avid Studio range of software and hardware. This includes Avid Studio and Pinnacle Studio desktop editing software and the Avid studio for the iPad as well as legacy video capture offerings and certain associated intellectual property including the Pinnacle trademark. Total revenues for 2011 from these divested product lines were approximately $91.0 million, or 13% of the Company's consolidated net revenues for the year ended December 31, 2011. The divestiture of these consumer product lines is intended to allow the Company to focus on the Media Enterprise and Professionals and Post market segments, is intended to reduce complexity from the Company's operations to improve operational efficiencies, and is intended to allow the Company to change its cost structure, by moving away from lower growth, lower margin sectors to drive improved financial performance.

On July 2, 2012, as part of the announcement of strategic actions, the Company announced a restructuring plan (the “2012 Plan”) intended to improve operational efficiencies. Actions under the 2012 Plan included a reduction in force and the closure or partial closure of certain facilities. Together, the transfer of employees to Corel and Numark as part of the divestitures and the reduction in force will reduce the Company's permanent employee headcount by approximately 20%. The Company anticipates that it will

complete all actions under the 2012 Plan prior to the year ending December 31, 2012. The Company expects to incur total expenses relating to termination benefits and facility costs associated with the reduction in force and related actions of approximately $20.0 million to $23.0 million, which primarily represent cash expenditures. During the quarter ended June 30, 2012, the Company recorded restructuring charges of approximately $14.9 million under this plan. The Company expects to take additional charges of $5.0 million to $8.0 million in the second half of 2012 primarily related to the closure or partial closure of facilities.
See Note 7, Assets Held-for-Sale, and Note 13, Restructuring Costs and Accruals, for further details and the related accounting for these consumer product line divestitures and the 2012 restructuring plan. See also Notes 4, 5, 6, 9 and 12 for other disclosures related to these divestitures and restructuring plan.

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 June 30, 2012 and December 31, 2011, respectively. During the three months ended June 30, 2012, the Company recorded a discrete tax benefit of approximately $3.8 million when it determined that it would repay the intercompany note and file a refund claim for the withholding taxes due (see Note 16). In addition, upon repayment of the intercompany note, the Company will 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 Securities and Exchange Commission ("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 SEC 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 its Form 10-Q for the period ended March 31, 2012 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, as amended.

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 to reflect the effect of the withholding tax errors described above and the other immaterial errors and were presented in the Form 10-Q for the period ended March 31, 2012. Revised Condensed Consolidated Statements of Operations for the three-month and six-month periods ended June 30, 2011 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 and were presented in the Form 10-Q for the period ended March 31, 2012. Revised Condensed Consolidated Balance Sheets for December 31, 2011 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
(in thousands except per share date, unaudited)

	December 31, 2011	
	As Reported	As Revised
ASSETS		
Current assets:		
Cash and cash equivalents	$32,855	$32,855
Accounts receivable	104,305	104,305
Inventories	111,833	111,397
Deferred tax assets, net	1,480	1,480
Prepaid expenses	7,652	7,652
Other current assets	14,509	14,405
Total current assets	272,634	272,094
Property and equipment, net	53,487	53,487
Intangible assets, net	18,524	18,524
Goodwill	246,398	246,592
Other assets	11,568	11,568
Total assets	$602,611	$602,265
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$42,533	$42,533
Accrued compensation and benefits	31,350	31,750
Accrued expenses and other current liabilities	34,174	35,108
Income taxes payable	3,898	8,950
Deferred revenues	45,768	45,768
Total current liabilities	157,723	164,109
Long-term liabilities	27,885	27,885
Total liabilities	185,608	191,994
Stockholders' equity:		
Common stock	423	423
Additional paid-in capital	1,018,604	1,019,200
Accumulated deficit	(524,530)	(532,477)
Treasury stock at cost, net of reissuances	(82,301)	(82,301)
Accumulated other comprehensive income	4,807	5,426
Total stockholders' equity	417,003	410,271
Total liabilities and stockholders' equity	$602,611	$602,265

Condensed Consolidated Statements of Operations

For the Three and Six Months Ended June 30, 2011
(in thousands except per share date, unaudited)

	Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
	As Reported	As Revised	As Reported	As Revised
Net revenues:				
Products	$129,190	$129,488	$266,525	$266,234
Services	32,154	32,295	61,142	61,301
Total net revenues	161,344	161,783	327,667	327,535
Cost of revenues:				
Products (a)	62,964	64,024	127,615	127,888
Services (a)	15,312	14,706	29,699	28,760
Amortization of intangible assets	685	685	1,351	1,351
Total cost of revenues	78,961	79,415	158,665	157,999
Gross profit	82,383	82,368	169,002	169,536
Operating expenses:				
Research and development	30,453	30,453	60,426	60,426
Marketing and selling	46,052	45,867	90,862	90,917
General and administrative	14,920	14,219	30,218	29,219
Amortization of intangible assets	2,161	2,161		