

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

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 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
(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 (§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, 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)

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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 November 5, 2012 was 38,925,247.

AVID TECHNOLOGY, INC.
 FORM 10-Q
 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 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 September 30,		Nine Months Ended September 30,	
	2012	2011 (Revised)	2012	2011 (Revised)
Net revenues:				
Products	\$89,071	\$131,655	\$334,882	\$397,889
Services	36,297	33,043	102,905	94,343
Recoveries (allowances) related to divestitures	1,807	—	(1,041)) —
Total net revenues	127,175	164,698	436,746	492,232
Cost of revenues:				
Products	43,784	60,063	171,633	187,952
Services	15,107	15,586	42,149	44,346
Amortization of intangible assets	634	684	1,928	2,036
Restructuring costs	528	—	3,161	—
Total cost of revenues	60,053	76,333	218,871	234,334
Gross profit	67,122	88,365	217,875	257,898
Operating expenses:				
Research and development	23,099	28,960	77,474	89,386
Marketing and selling	36,629	45,395	126,017	136,312
General and administrative	10,542	13,518	39,338	42,737
Amortization of intangible assets	782	2,159	3,499	6,465
Restructuring costs, net	12,674	2,707	28,683	1,392
(Gain) loss on sales of assets	(206)	) —	9,493	597
Total operating expenses	83,520	92,739	284,504	276,889
Operating loss	(16,398)	) (4,374)	) (66,629)	) (18,991)
Interest income	49	10	164	78
Interest expense	(404)	) (556)	) (1,124)	) (1,572)
Other income, net	37	43	69	46
Loss before income taxes	(16,716)	) (4,877)	) (67,520)	) (20,439)
Provision for income taxes, net	672	2,672	2,097	3,039
Net loss	\$(17,388)	) \$(7,549)	) \$(69,617)	) \$(23,478)
Net loss per common share – basic and diluted	\$(0.45)	) \$(0.20)	) \$(1.80)	) \$(0.61)
Weighted-average common shares outstanding – basic and diluted	38,859	38,511	38,767	38,386

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 September 30,		Nine Months Ended September 30,	
	2012	2011 (Revised)	2012	2011 (Revised)
Net loss	\$(17,388)	\$(7,549)	\$(69,617)	\$(23,478)
Other comprehensive (loss) income:				
Net change in defined benefit plan	—	—	—	143
Foreign currency translation adjustments, net of taxes	2,621	(8,211)	1,435	(687)
Comprehensive loss	\$(14,767)	\$(15,760)	\$(68,182)	\$(24,022)

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

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

	September 30, 2012	December 31, 2011 (Revised)
ASSETS		
Current assets:		
Cash and cash equivalents	\$71,359	\$32,855
Accounts receivable, net of allowances of \$14,663 and \$15,985 at September 30, 2012 and December 31, 2011, respectively	75,074	104,305
Inventories	80,435	111,397
Deferred tax assets, net	1,475	1,480
Prepaid expenses	7,616	7,652
Other current assets	16,303	14,405
Total current assets	252,262	272,094
Property and equipment, net	43,825	53,487
Goodwill	238,553	246,592
Intangible assets, net	9,637	18,524
Other assets	9,689	11,568
Total assets	\$553,966	\$602,265
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$36,307	\$42,533
Accrued compensation and benefits	22,706	31,750
Accrued expenses and other current liabilities	41,897	35,108
Income taxes payable	8,972	8,950
Deferred revenues	58,180	45,768
Total current liabilities	168,062	164,109
Long-term liabilities	36,581	27,885
Total liabilities	204,643	191,994
Contingencies (Note 11)		
Stockholders' equity:		
Common stock	423	423
Additional paid-in capital	1,025,640	1,019,200
Accumulated deficit	(606,915	) (532,477)
Treasury stock at cost, net of reissuances	(76,686	) (82,301)
Accumulated other comprehensive income	6,861	5,426
Total stockholders' equity	349,323	410,271
Total liabilities and stockholders' equity	\$553,966	\$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)

	Nine Months Ended September 30,	
	2012	2011 (Revised)
Cash flows from operating activities:		
Net loss	\$(69,617)	\$(23,478)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	20,905	23,540
(Recovery from) provision for doubtful accounts	(101)	534
Non-cash provision for restructuring	4,950	258
Non-cash provision for allowances for divestiture	1,041	—
Loss on sales of assets	9,745	597
Gain on disposal of fixed assets	(257)	(10)
Compensation expense from stock grants and options	7,074	11,835
Non-cash interest expense	220	228
Foreign currency transaction losses	1,211	3,988
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	28,201	8,754
Inventories	16,995	(18,587)
Prepaid expenses and other current assets	(2,705)	631
Accounts payable	(6,247)	(12,026)
Accrued expenses, compensation and benefits and other liabilities	2,351	(25,830)
Income taxes payable	84	(146)
Deferred revenues	16,282	15,701
Net cash provided by (used in) operating activities	30,955	(14,015)
Cash flows from investing activities:		
Purchases of property and equipment	(6,659)	(8,862)
Proceeds from sales of assets	13,309	—
Decrease (increase) in other long-term assets	191	(511)
Net cash provided by (used in) investing activities	6,841	(9,373)
Cash flows from financing activities:		
Proceeds from the issuance of common stock under employee stock plans	160	1,753
Proceeds from revolving credit facilities	14,000	21,000
Payments on revolving credit facilities	(14,000)	(8,000)
Net cash provided by financing activities	160	14,753
Effect of exchange rate changes on cash and cash equivalents	548	(495)
Net increase (decrease) in cash and cash equivalents	38,504	(9,130)
Cash and cash equivalents at beginning of period	32,855	42,782
Cash and cash equivalents at end of period	\$71,359	\$33,652
Supplemental information:		
Cash paid for income taxes, net of refunds	\$4,073	\$2,922

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

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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 (Revised) 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 condensed consolidated 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 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. The most significant estimates reflected in these condensed consolidated 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 no recognized or unrecognized subsequent events required recognition or disclosure in these financial statements.

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 initiated that allowed it to focus on its Media Enterprise and Post and Professionals market segments and to drive improved operating performance. These strategic 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 \$93.5 million, or 14% of the Company's consolidated net revenues for the year ended December 31, 2011 (Revised).

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 have reduced the Company's permanent employee headcount by approximately 330 positions. 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, facility and other costs associated with the reduction in force and related actions of approximately \$25.1 million, which primarily represent cash expenditures. During the quarter ended September 30, 2012, the

Company recorded restructuring charges of approximately \$10.2 million under this plan.

See Note 7, Divestitures, and Note 13, Restructuring Costs and Accruals, for further details and the related accounting for these consumer product line divestitures and the 2012 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 through December 31, 2011. Additionally, as the tax was not withheld and paid to the taxing authority, the Company might be 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 \$1.2 million (\$0.8 million interest and \$0.4 million penalties) and \$1.0 million (\$0.6 million interest and \$0.4 million penalties) at September 30, 2012 and December 31, 2011 (Revised), 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, after repaying the intercompany note, the Company requested a refund from the taxing authority for any penalties assessed under a voluntary compliance approach, although there can be no assurance that an abatement 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 believed the impact would have been significant and would impact comparisons to prior periods. Therefore, as required by SAB 108, the Company 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 (Revised) and 2010. In addition to correcting the 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 (Revised) and 2010 and the three months ended March 31, 2011 (Revised), June 30, 2011 (Revised), September 30, 2011 (Revised), and December 31, 2011 (Revised) 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 and nine-month periods ended September 30, 2011 (Revised) have been presented herein.

The Condensed Consolidated Balance Sheets at December 31, 2011 (Revised) 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 Sheets resulted in increases in accumulated deficit of \$7.9 million, \$8.2 million, and \$6.3 million, respectively, at December 31, 2011 (Revised), 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 (Revised) 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, net	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
Goodwill	246,398	246,592
Intangible assets, net	18,524	18,524
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 Nine Months Ended September 30, 2011
 (in thousands except per share data, unaudited)

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	As Reported	As Revised	As Reported	As Revised
Net revenues:				
Products	\$ 131,875	\$ 131,655	\$ 398,400	\$ 397,889
Services	33,090	33,043	94,232	94,343
Total net revenues	164,965	164,698	492,632	492,232
Cost of revenues:				
Products (a)	60,048	60,063	187,663	187,952
Services (a)	16,497	15,586	46,196	44,346
Amortization of intangible assets	685	684	2,036	2,036
Total cost of revenues	77,230	76,333	235,895	234,334
Gross profit	87,735	88,365	256,737	257,898
Operating expenses:				
Research and development	28,960	28,960	89,386	89,386
Marketing and selling	45,411	45,395	136,273	136,312
General and administrative	13,240	13,518	43,458	42,737
Amortization of intangible assets	2,159			