AVID TECHNOLOGY, INC.
Form 10-Q
August 06, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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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, 2009

o **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.)

One Park West

Tewksbury, Massachusetts 01876

(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 o

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 o No o

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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer o	Accelerated Filer x
Non-accelerated Filer o (Do not check if smaller reporting company)	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

The number of shares outstanding of the registrant s Common Stock as of August 4, 2009 was 37,383,773.

AVID TECHNOLOGY, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009

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This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and Section 27A of the Securities Act of 1933, as amended, or the Securities Act. For this purpose, any statements contained in this quarterly report regarding our strategy, future plans or operations, financial position, future revenues, projected costs, prospects, and objectives of management, other than statements of historical facts, may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, plans, expects and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We cannot guarantee that we actually will achieve the plans, intentions or expectations expressed or implied in forward-looking statements. There are a number of factors that could cause actual events or results to differ materially from those indicated or implied by such forward-looking statements, many of which are beyond our control, including the 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, 2008, and as referenced in Part II - Item 1A of this report. In addition, the forward-looking statements contained herein 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		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Net revenues:				
Products	$ 121,912	$ 189,115	$ 245,553	$ 357,291
Services	28,631	33,748	56,619	63,838
Total net revenues	150,543	222,863	302,172	421,129
Cost of revenues:				
Products	58,429	92,628	119,677	177,701
Services	14,090	19,629	29,929	37,016
Amortization of intangible assets	426	2,270	946	5,524
Restructuring costs			799	
Total cost of revenues	72,945	114,257	151,351	220,241
Gross profit	77,598	108,336	150,821	200,888
Operating expenses:				
Research and development	30,661	38,972	61,712	77,482
Marketing and selling	41,994	55,259	82,775	105,586
General and administrative	12,559	19,492	27,672	41,435
Amortization of intangible assets	2,622	3,323	4,997	6,710
Restructuring costs, net	5,019	937	9,241	2,000
Total operating expenses	92,855	117,983	186,397	233,213
Operating loss	(15,257)	(9,647)	(35,576)	(32,325)
Interest income	239	746	503	2,309
Interest expense	(185)	(143)	(235)	(279)
Other income (expense), net	4	14	(57)	68
Loss before income taxes	(15,199)	(9,030)	(35,365)	(30,227)
Provision for (benefit from) income taxes, net	750	1,355	(2,139)	1,306
Net loss	$ (15,949)	$ (10,385)	$ (33,226)	$ (31,533)
Net loss per common share basic and diluted	$ (0.43)	$ (0.28)	$ (0.89)	$ (0.83)
Weighted-average common shares outstanding basic and diluted	37,282	36,904	37,206	38,133

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, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 87,360	$ 121,792
Marketable securities	31,228	25,902
Accounts receivable, net of allowances of $16,631 and $23,182 at June 30, 2009 and December 31, 2008, respectively	85,192	103,527
Inventories	93,399	95,755
Deferred tax assets, net	598	612
Prepaid expenses	9,044	9,274
Other current assets	26,890	34,083
Total current assets	333,711	390,945
Property and equipment, net	35,643	38,321
Intangible assets, net	32,200	38,143
Goodwill	225,375	225,375
Other assets	11,221	10,801
Total assets	$ 638,150	$ 703,585
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 27,785	$ 29,419
Accrued compensation and benefits	23,697	27,346
Accrued expenses and other current liabilities	41,450	64,511
Income taxes payable	3,950	9,250
Deferred revenues	61,566	68,581
Total current liabilities	158,448	199,107
Long-term liabilities	12,705	11,823
Total liabilities	171,153	210,930
Contingencies (Notes 11 and 12)		
Stockholders equity:		
Common stock	423	423
Additional paid-in capital	986,197	980,563
Accumulated deficit	(406,679)	(365,431)
Treasury stock at cost, net of reissuances	(116,224)	(124,852)
Accumulated other comprehensive income	3,280	1,952
Total stockholders equity	466,997	492,655
Total liabilities and stockholders equity	$ 638,150	$ 703,585

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)

	Six Months Ended June 30, 2009	2008
Cash flows from operating activities:		
Net loss	$(33,226)	$(31,533)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	15,763	23,352
Provision for doubtful accounts	1,550	941
Non-cash provision for restructuring	925	16
Loss on disposal of fixed assets	74	17
Compensation expense from stock grants and options	7,042	6,473
Changes in deferred tax assets and liabilities	(372)	(376)
Changes in operating assets and liabilities:		
Accounts receivable	18,256	25,481
Inventories	1,565	(3,406)
Prepaid expenses and other current assets	6,361	(4,122)
Accounts payable	(1,614)	1,267
Accrued expenses, compensation and benefits and other liabilities	(28,749)	(1,604)
Income taxes payable	(5,275)	(1,203)
Deferred revenues	(5,506)	374
Net cash (used in) provided by operating activities	(23,206)	15,677
Cash flows from investing activities:		
Purchases of property and equipment	(6,101)	(8,543)
Payments for other long-term assets	(1,030)	(1,018)
Purchases of marketable securities	(43,604)	(16,872)
Proceeds from sales of marketable securities	38,315	23,701
Proceeds from notes receivable	1,364	
Net cash used in investing activities	(11,056)	(2,732)
Cash flows from financing activities:		
Purchases of common stock for treasury		(93,187)
Payments related to stock option purchase	(526)	
Payments related to the issuance of common stock under employee stock plans, net	(276)	(128)
Net cash used in financing activities	(802)	(93,315)
Effect of exchange rate changes on cash and cash equivalents	632	1,188
Net decrease in cash and cash equivalents	(34,432)	(79,182)
Cash and cash equivalents at beginning of period	121,792	208,619
Cash and cash equivalents at end of period	$87,360	$129,437

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

AVID TECHNOLOGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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 include all adjustments, consisting of only normal, recurring adjustments, necessary for their fair statement. Interim results are not necessarily indicative of results expected for 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 generally accepted accounting principles. The accompanying condensed consolidated balance sheet as of December 31, 2008 was derived from Avid s audited consolidated financial statements, but does not include all disclosures required by generally accepted accounting principles. The Company filed audited consolidated financial statements for the year ended December 31, 2008 in its 2008 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 accounting principles generally accepted in the United States of America 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 expenses, restructuring costs, 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.

On January 1, 2009, the Company transitioned to a new business structure that combined the previous Professional Video and Consumer Video units into a single Video reporting segment and consolidated its sales and marketing teams into a single customer-facing organization. As a result, the Company has reclassified its 2008 segment reporting to conform to the 2009 presentation. The change to the current presentation did not affect the Company s consolidated operating results. See Note 14 for a summary of the Company s revenues and contribution margin by reportable segment for the three- and six-month periods ended June 30, 2009 and 2008.

The Company evaluated subsequent events through August 6, 2009, the date of issuance of these financial statements, to determine if any event since the date of these financial statements required disclosure in these statements. The evaluation determined that there were no recognized or unrecognized subsequent events, other than the disclosure included in Note 18 of these financial statements, requiring recognition or disclosure.

2. NET INCOME (LOSS) PER COMMON SHARE

Net income (loss) per common share is presented for both basic earnings (loss) per share (Basic EPS) and diluted earnings (loss) per share (Diluted EPS). Basic EPS is based on the weighted-average number of common shares outstanding during the period, excluding non-vested restricted stock held by employees. Diluted EPS is based on the weighted-average number of common and potential common shares outstanding during the period.

The following table sets forth (in thousands) potential common shares, on a weighted-average basis, that were considered anti-dilutive securities and excluded from the Diluted EPS calculations 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 the Company s 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 the Company s executive officers that vest based on performance and market conditions.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2009	**2008**	**2009**	**2008**
Options	4,217	4,120	4,264	3,778
Warrant (a)		1,155		1,155
Non-vested restricted stock and restricted stock units	748	1,201	859	1,054
Anti-dilutive potential common shares	4,965	6,476	5,123	5,987

(a) In connection with the acquisition of Softimage Inc. in 1998, the Company issued a ten-year warrant to purchase 1,155,235 shares of the Company s common stock at a price of $47.65 per share. The warrant expired on August 3, 2008.

During periods of net loss, certain potential common shares that would otherwise be included in the Diluted EPS calculation are excluded because the effect would be anti-dilutive. The following table sets forth (in thousands) common stock equivalents that were excluded from the calculation of Diluted EPS due to the net loss for the relevant period.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2009	**2008**	**2009**	**2008**
Options	15	148	12	169
Non-vested restricted stock and restricted stock units	10	4	6	4
Anti-dilutive common stock equivalents	25	152	18	173

3. FAIR VALUE MEASUREMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements.

SFAS No. 157 establishes a fair value hierarchy that requires the use of observable market data, when available, and prioritizes the inputs to valuation techniques used to measure fair value in the following categories:

Level 1 Quoted unadjusted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all observable inputs and significant value drivers are observable in active markets.

Level 3 Model-derived valuations in which one or more significant inputs or significant value drivers are unobservable, including assumptions developed by the Company.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

On a recurring basis, the Company measures certain financial assets and liabilities at fair value, including cash equivalents, marketable securities and foreign-currency forward contracts. All of the Company s financial assets and liabilities were classified as either Level 1 or Level 2 in the fair value hierarchy at June 30, 2009. Instruments valued using quoted market prices in active markets and classified as Level 1 are primarily money market securities and deferred compensation investments. Investments valued based on other observable inputs and classified as Level 2 include commercial paper, certificates of deposit, asset-backed obligations, discount notes, corporate and agency bonds, and foreign currency contracts.

The following table summarizes the Company s fair value hierarchy for financial assets and liabilities measured at fair value on a recurring basis at June 30, 2009 (in thousands):

		Fair Value Measurements at Reporting Date Using		
	June 30, 2009	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial Assets:				
Available for sale securities	$ 47,814	$ 15,086	$ $32,728	$
Deferred compensation plan investments	658	658		
Financial Liabilities:				
Deferred compensation plan	$ 658	$ 658	$	$
Foreign currency forward contracts	671		671	

The following table summarizes the costs (amortized costs of debt instruments) and fair values of the Company s available for sale securities at June 30, 2009 (in thousands):

	Costs	**Net Unrealized Gains (Losses)**	**Fair Values**
Money market	$ 15,086	$	$ 15,086
Certificates of deposit	3,751	9	3,760
Commercial paper	4,999		4,999
Municipal bonds	12,049		12,049
Corporate bonds	4,811	(1)	4,810
Foreign bonds	3,499	5	3,504
Asset-backed obligations	99	(12)	87
Agency bonds and discount notes	3,512	7	3,519
	$ 47,806	$ 8	$ 47,814

All fixed income securities held at June 30, 2009 had effective maturities of less than one year. All income generated from these investments has been recorded as interest income. The Company calculates realized gains and losses on a specific identification basis. Realized gains and losses from the sale of marketable securities were not material for the three or six months ended June 30, 2009.

At June 30, 2009, there were no securities whose unrealized losses were deemed by the Company to be other-than-temporary impairments, as the Company has no intent to sell and it is not more likely than not the Company will be required to sell any investment with unrealized losses until it has recovered the full cost basis.

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The Company uses the following valuation techniques to determine fair values of its investment instruments:

- *Money Market*: The fair value of the Company s money market fund investment is determined using the unadjusted quoted price from an active market of identical assets.
- *Commercial Paper and Certificates of Deposit:* The fair values for the Company s commercial paper holdings and certificates of deposit are derived from a pricing model using the straight-line amortized cost method and incorporate observable inputs, which include maturity date, issue date, credit rating of the issuer, current commercial paper rate and settlement date.
- *Corporate, Municipal and Foreign Bonds*: The determination of the fair value of corporate bonds includes the use of observable inputs from market sources and the incorporation of relative credit information, observed market movements and sector news into a pricing model.
- *Asset-Backed Obligations*: The fair value of asset-backed obligations is determined using a pricing methodology based on observable market inputs, which include an analysis of pricing, spread and volatility of similar asset-backed obligations. Based on the market inputs, cash flows are generated for each tranche, the benchmark yield is determined and deal collateral performance and other market information is incorporated to determine the appropriate spreads.
- *Agency Bonds & Discount Notes:* The fair values of agency bonds and discount note investments are determined using observable market inputs for benchmark yields, base spreads, yield-to-maturity and relevant trade data.

See Note 16 for information on the Company s foreign currency forward contracts that are also measured at fair value on a recurring basis.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The following tables summarize the Company s fair value hierarchy for assets and liabilities measured at fair value on a nonrecurring basis during the three and six months ended June 30, 2009 (in thousands):

		Fair Value Measurements Using			
	Three Months Ended June 30, 2009	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Related Expenses**
Liabilities:					
Facilities-related restructuring accruals	$1,517	$	$1,517	$	$1,517

		Fair Value Measurements Using			
	Six Months Ended June 30, 2009	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Related Expenses**
Liabilities:					
Facilities-related restructuring accruals	$4,316	$	$4,316	$	$4,316

The Company typically uses the following valuation techniques to determine fair values of assets and liabilities measured on a nonrecurring basis:

Goodwill: When performing goodwill impairment tests, the Company estimates the fair value of its reporting units using an income approach, generally a discounted cash flow methodology, that includes assumptions for, among other things, forecasted revenues, gross profit margins, operating profit margins, working capital cash flow, growth rates, income tax rates, expected tax benefits and long-term discount rates, all of which require significant judgments by management. The Company also considers comparable market data based on multiples of revenue as well as the reconciliation of the Company s market capitalization to the total fair value of its reporting units. If the estimated fair value of any reporting unit is less that its carrying value, an impairment exists.

Intangible Assets: When performing an intangible asset impairment test, the Company estimates the fair value of the asset using a discounted cash flow methodology, which includes assumptions for, among other things, budgets and economic projections, market trends, product development cycles and long-term discount rates. If the estimated fair value of the asset is less that its carrying value, an impairment exists.

Assets Held-for-Sale: In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* a disposal group is measured at the lower of its carrying amount or fair value less the cost to sell. The Company estimates the fair value of assets held-for-sale at the lower of cost or the average selling price in available markets.

Facilities-Related Restructuring Accruals: During the three and six months ended June 30, 2009, the Company recorded accruals associated with exiting all or portions of certain leased facilities. The Company estimates the fair value of such liabilities, which are discounted to net present value at an assumed risk-free interest rate, based on observable inputs, including the remaining payments required under the existing lease agreements, utilities costs based on recent invoice amounts, and potential sublease receipts based on quoted market prices for similar sublease arrangements.

4. GOODWILL AND INTANGIBLE ASSETS

Goodwill

Goodwill resulting from the Company s acquisitions consisted of the following at June 30, 2009 and December 31, 2008 (in thousands):

	Video	Audio	Total
Balances at June 30, 2009 and December 31, 2008			
Goodwill	$256,070	$141,205	$397,275
Accumulated impairment losses	(107,600)	(64,300)	(171,900)
	$148,470	$76,905	$225,375

Amortizable Identifiable Intangible Assets

Amortizable identifiable intangible assets resulting from the Company s acquisitions consisted of the following at June 30, 2009 and December 31, 2008 (in thousands):

	June 30, 2009			December 31, 2008		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Completed technologies and patents	$65,357	$(63,232)	$2,125	$65,357	$(62,003)	$3,354
Customer relationships	63,072	(36,500)	26,572	63,072	(32,964)	30,108
Trade names	13,714	(10,225)	3,489	13,714	(9,102)	4,612
License agreements	560	(546)	14	560	(491)	69
	$142,703	$(110,503)	$32,200	$142,703	$(104,560)	$38,143

During the three months ended June 30, 2009, the Company reduced the expected lives of certain trade name intangible assets as a result of a rebranding program initiated by the Company in April 2009. The change in the expected lives resulted in the Company recording $0.2 million of additional amortization expense in its statements of operations during the three and six months ended June 30, 2009. Amortization expense related to all intangible assets in the aggregate was $3.0 million and $5.6 million, respectively, for the three-month periods ended June 30, 2009 and 2008, and $5.9 million and $12.2 million, respectively, for the six-month periods ended June 30, 2009 and 2008. The Company expects amortization of these intangible assets to be approximately $6 million for the remainder of 2009, $9 million in 2010, $6 million in 2011, $3 million in 2012, $2 million in 2013, $2 million in 2014 and $4 million thereafter.

5. ACCOUNTS RECEIVABLE

Accounts receivable, net of allowances, consisted of the following at June 30, 2009 and December 31, 2008 (in thousands):

	June 30, 2009	December 31, 2008
Accounts receivable	$101,823	$126,709
Less:		
Allowance for doubtful accounts	(3,035)	(3,504)
Allowance for sales returns and rebates	(13,596)	(19,678)
	$85,192	$103,527

The accounts receivable balances at June 30, 2009 and December 31, 2008 excluded approximately $11.5 million and $8.4 million, respectively, for large solution sales and certain distributor sales that were invoiced, but for which revenues had not yet been recognized and payments were not then due.

6. INVENTORIES

Inventories consisted of the following at June 30, 2009 and December 31, 2008 (in thousands):

	June 30, 2009	December 31, 2008
Raw materials	$17,707	$ 22,067
Work in process	6,449	9,296
Finished goods	69,243	64,392
	$93,399	$ 95,755

At June 30, 2009 and December 31, 2008, the finished goods inventory included inventory at customer locations of $16.1 million and $17.8 million, respectively, associated with products shipped to customers for which revenues had not yet been recognized.

7. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consisted of the following at June 30, 2009 and December 31, 2008 (in thousands):

	June 30, 2009	December 31, 2008
Computer and video equipment and software	$108,646	$102,457
Manufacturing tooling and testbeds	6,719	6,601
Office equipment	3,381	3,172
Furniture and fixtures	10,746	10,714
Leasehold improvements	30,597	30,655
	160,089	153,599

Accumulated depreciation and amortization	(124,446)	(115,278)
	$35,643	$38,321

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8. LONG-TERM LIABILITIES

Long-term liabilities consisted of the following at June 30, 2009 and December 31, 2008 (in thousands):

	June 30, 2009	December 31, 2008
Long-term deferred tax liabilities, net	$3,630	$4,002
Long-term deferred revenue	5,592	4,081
Long-term deferred rent	2,140	2,436
Long-term accrued restructuring	1,343	1,304
	$12,705	$11,823

9. ACCOUNTING FOR STOCK-BASED COMPENSATION

Stock Option Purchase

In June 2009, the Company completed a cash tender offer for certain employee stock options. The tender offer applied to 547,133 outstanding stock options having an exercise price equal to or greater than $40.00 per share and granted under the Company s Amended and Restated 2005 Stock Incentive Plan, Amended and Restated 1999 Stock Option Plan (including the U.K. sub-plan), 1998 Stock Option Plan, 1997 Stock Option Plan, 1997 Stock Incentive Plan, as amended, and 1994 Stock Option Plan, as amended. Members of the Company s Board of Directors, officers who file reports under Section 16(a) of the Securities Exchange Act of 1934 and members of the executive staff were not eligible to participate in this offer. Under the offer, eligible options with exercise prices equal to or greater than $40.00 and less than $50.00 per share were eligible to receive a cash payment of $1.50 per share, and eligible options with exercise prices equal to or greater than $50.00 per share were eligible to receive a cash payment of $1.00 per share.

Options to purchase a total of 419,042 shares of the Company s common stock, of which 366,769 shares are available for future grant, were tendered under the offer for an aggregate purchase price of approximately $0.5 million paid in exchange for the cancellation of the eligible options. As a result of the tender offer, the Company incurred stock-based compensation charges of approximately $0.1 million in its condensed consolidated statements of operations for the three and six months ended June 30, 2009. This is the first time the Company has offered to purchase outstanding stock options in exchange for cash, and there is no current intent to make another such offer in the future.

Stock Incentive Plans

Under its stock incentive plans, the Company may grant stock awards or options to purchase the Company s common stock to employees, officers, directors (subject to certain restrictions) and consultants, generally at the market price on the date of grant. The options become exercisable over various periods, typically four years for employees and one year for non-employee directors, and have a maximum term of seven years. Restricted stock and restricted stock unit awards typically vest over four years. At June 30, 2009, 5,662,916 shares were available for issuance under the Company s Amended and Restated 2005 Stock Incentive Plan, including 1,126,365 that may alternatively be issued as awards of restricted stock or restricted stock units.

The Company records stock-based compensation cost, based on the fair value estimated in accordance with SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)), for stock-based awards granted over the requisite service periods for the individual awards, which generally equals the vesting period. Stock-compensation expense is recognized using the straight-line attribution method. As permitted under

SFAS 123(R), the Company generally uses the Black-Scholes option pricing model to estimate the fair value of stock option grants. The Black-Scholes model relies on a number of key assumptions to calculate estimated fair values. The fair values of restricted stock awards, including restricted stock and restricted stock units, are based on the intrinsic values of the awards at the date of grant.

The following table sets forth the weighted-average key assumptions and fair value results for stock options with time-based vesting granted during the three- and six-month periods ended June 30, 2009 and 2008:

	Three Months Ended		**Six Months Ended**	
	June 30,		**June 30,**	
	2009	**2008**	**2009**	**2008**
Expected dividend yield	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate	2.02%	2.67%	1.96%	2.48%
Expected volatility	55.9%	40.9%	56.2%	39.4%
Expected life (in years)	4.57	4.71	4.57	4.43
Weighted-average fair value of options granted	$6.36	$8.67	$6.19	$8.42

In December 2007, the Company began issuing options to purchase shares of Avid common stock that had vesting based on market conditions or a combination of performance and market conditions. The compensation costs and derived service periods for stock option grants with vesting based on market conditions or a combination of performance and market conditions are estimated using the Monte Carlo valuation method. For stock option grants with vesting based on a combination of performance and market conditions, the compensation costs are also estimated using the Black-Scholes valuation method, and compensation costs for these grants are recorded based on the higher estimate for each vesting tranche. At June 30, 2009, the Company had 1,440,260 options outstanding that had vesting based on either market conditions or a combination of performance and market conditions.

The following table sets forth the weighted-average key assumptions and fair value results for stock options with vesting based on market conditions or a combination of performance and market conditions granted during the three-and six-month periods ended June 30, 2009 and 2008:

	Three Months Ended		**Six Months Ended**	
	June 30,		**June 30,**	
	2009	**2008 (a)**	**2009**	**2008**
Expected dividend yield	0.00%		0.00%	0.00%
Risk-free interest rate	3.51%		3.32%	3.42%
Expected volatility	56.2%		57.6%	38.4%
Expected life (in years)	3.58		3.81	4.26
Weighted-average fair value of options granted	$6.07		$5.21	$7.11

(a) There were no grants of stock options with vesting based on market conditions or a combination of performance and market conditions during the three months ended June 30, 2008.

During the first quarter of 2008, the Company issued 27,200 restricted stock units to executives as part of the Company s annual grant program that have vesting based on market conditions or a combination of performance and market conditions. The compensation cost and derived service periods for these restricted stock units were estimated using the Monte Carlo valuation method using a volatility of 38.95% and a risk-free interest rate of 3.29%. For restricted stock units with vesting based on a combination of performance and market conditions, compensation costs were also estimated using the intrinsic value on the date of grant factored for probability. Compensation costs for each vesting tranche were recorded based on the higher estimate. The weighted-average fair value of these restricted stock units is $18.61 and the derived service periods range from 3.04 to 4.75 years with a weighted average of 4.17 years.

The Company estimates forfeiture rates at the time awards are made based on historical turnover rates and applies these rates in the calculation of estimated compensation cost. At June 30, 2009, the Company s annualized estimated forfeiture rates were 0% for non-employee director awards, and 10% for both executive management staff and other employee awards.

The following table summarizes changes in the Company s stock options during the six-month period ended June 30, 2009:

	Stock Options			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2008	4,450,286	$30.03		
Granted	979,780	$12.88		
Exercised	(12,252)	$9.13		
Forfeited or expired (a)	(1,115,508)	$39.49		
Options outstanding at June 30, 2009	4,302,306	$23.73	6.19	$922
Options vested at June 30, 2009 or expected to vest	3,691,147	$24.37	6.03	$773
Options exercisable at June 30, 2009	1,362,105	$31.84	4.08	$275

(a) Forfeited or expired shares includes options to purchase 419,042 shares canceled as a result of the tender offer to purchase certain employee stock options completed in June 2009. See the Stock Option Purchase section in this note for further information on the tender offer.

The aggregate intrinsic values of stock options exercised during the six-month periods ended June 30, 2009 and 2008 were approximately $41 thousand and $0.4 million, respectively. Cash amounts received from the exercise of stock options were $0.1 million and $0.7 million for the six-month periods ended June 30, 2009 and 2008, respectively. The Company did not realize any actual tax benefit from the tax deductions for stock option exercises during the six-month periods ended June 30, 2009 and 2008 due to the full valuation allowance on the Company s U.S. deferred tax assets.

The following table summarizes changes in the Company s non-vested restricted stock units during the six-month period ended June 30, 2009:

	Non-Vested Restricted Stock Units			
	Shares	Weighted-Average Grant-Date Fair Value	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Non-vested at December 31, 2008	989,772	$27.28		
Granted (a)	34,500	$11.05		
Vested	(264,076)	$28.95		
Forfeited	(98,762)	$25.31		
Non-vested at June 30, 2009	661,434	$26.09	1.41	$8,863
Expected to vest	572,341	$26.14	1.35	$7,669

(a) Of the 34,500 restricted stock units granted during the first six months of 2009, 24,500 vest at the earlier of one year from the grant date or the first fiscal quarter certain performance-based criteria are met.

The following table summarizes changes in the Company s non-vested restricted stock during the six-month period ended June 30, 2009:

	Non-Vested Restricted Stock			
	Shares	Weighted-Average Grant-Date Fair Value	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Non-vested at December 31, 2008	100,000	$25.41		
Granted				
Vested	(37,500)	$25.41		
Forfeited				
Non-vested at June 30, 2009	62,500	$25.41	2.47	$838

Employee Stock Purchase Plan

On February 27, 2008, the Company s board of directors approved the Company s Second Amended and Restated 1996 Employee Stock Purchase Plan (the ESPP). The amended plan became effective May 1, 2008, the first day of the next offering period under the plan, and offers shares for purchase at a price equal to 85% of the closing price on the applicable offering period termination date. Shares issued under the ESPP are considered compensatory under SFAS 123(R). Accordingly, the Company is required to assign fair value to, and record compensation expense for, shares issued from the ESPP starting May 1, 2008. Prior to May 1, 2008, shares were authorized for issuance at a price equal to 95% of the closing price on the applicable offering period termination date, and shares offered under this arrangement were considered noncompensatory under SFAS 123(R).

The following table sets forth the weighted-average key assumptions and fair value results for shares issued under the ESPP for the three- and six-month periods ended June 30, 2009 and the two-month period ended June 30, 2008:

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009	Two Months Ended June 30, 2008
Expected dividend yield	0.00%	0.00%	0.00%
Risk-free interest rate	1.25%	1.90%	2.50%
Expected volatility	56.5%	59.9%	40.9%
Expected life (in years)	0.25	0.24	0.25
Weighted-average fair value of shares issued	$1.94	$1.83	$3.39

At June 30, 2009, 906,006 shares remained available for issuance under the ESPP.

Stock-Based Compensation

Stock-based compensation was included in the following captions in the Company s condensed consolidated statements of operations for the three- and six-month periods ended June 30, 2009 and 2008 (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Cost of product revenues	$ 153	$ 171	$ 503	$ 303
Cost of services revenues	231	166	621	264
Research and development expenses	612	1,089	1,082	1,452
Marketing and selling expenses	806	1,109	1,627	1,638
General and administrative expenses	1,092	2,053	3,209	3,076
Total stock-based compensation (a)	$2,894	$4,588	$7,042	$6,733

(a) Stock-based compensation for both the three- and six- month periods ended June 30, 2009 includes $0.1 million resulting from a tender offer, completed in June 2009, related to the purchase of certain employee stock options.

At June 30, 2009, the Company had $32.9 million of unrecognized compensation costs before forfeitures related to non-vested stock-based compensation awards granted under its stock-based compensation plans. These costs will be recognized over the next four and one-half years.

10. STOCK REPURCHASES

A stock repurchase program was approved by the Company s board of directors in April 2007, which authorized the Company to repurchase up to $100 million of the Company s common stock through transactions on the open market, in block trades or otherwise. In February 2008, the Company s board of directors approved a $100 million increase in the authorized funds for the repurchase of the Company s common stock. During 2007, the Company repurchased 809,236 shares of the Company s common stock under the program for a total purchase price, including commissions, of $26.6 million, or $32.92 per share. During 2008, the Company repurchased an additional 4,254,397 shares of the Company s common stock for a total purchase price, including commissions, of $93.2 million. The average price per share paid for the shares repurchased during 2008, including commissions, was $21.90. At June 30, 2009, $80.3 million remained available for future stock repurchases under the program. This stock repurchase program is being funded through working capital and has no expiration date.

During the six-month period ended June 30, 2009, the Company repurchased 10,482 shares of restricted stock from an employee to pay required withholding taxes upon the vesting of restricted stock.

At June 30, 2009 and December 31, 2008, treasury shares held by the Company totaled 4,968,760 shares and 5,207,711 shares, respectively.

11. INCOME TAXES

During the three months ended June 30, 2009, the Company identified $0.7 million of income tax reserves related to a foreign subsidiary that were provided for, but not included in the reconciliation of uncertain tax positions presented in Note H of the consolidated financial statements for the year ended December 31, 2008 in the Company s 2008 Annual Report on Form 10-K. During the three months ended June 30, 2009, the Company also identified $0.7 million of new tax reserves for uncertain tax positions. At June 30, 2009 and December 31, 2008, total unrecognized tax benefits were $5.3 million and $3.7 million, respectively, including $0.7 million and $0.6 million, respectively, for related accrued interest and penalties.

12. CONTINGENCIES

The Company receives inquiries from time to time claiming possible patent infringement by the Company. If any infringement is determined to exist, the Company may seek licenses or settlements. In addition, as a normal incidence of the nature of the Company s business, various claims, charges and litigation have been asserted or commenced from time to time against the Company arising from or related to contractual or employee relations, intellectual property rights or product performance. Settlements related to any such claims are generally included in the general and administrative expenses caption in the Company s consolidated statements of operations. Management does not believe these claims will have a material adverse effect on the financial position or results of operations of the Company.

On May 24, 2007, David Engelke and Bryan Engelke filed a complaint against the Company s Pinnacle subsidiary in Pinellas County (Florida) Circuit Court, claiming that Pinnacle breached certain contracts among them and that the Engelkes are entitled to indemnification for damages (and attorneys fees) awarded against them in litigation with a third party. The complaint, which seeks damages of approximately $17 million, was served on September 4, 2007. On September 28, 2007, the Florida appellate court reversed the damages award for which the Engelkes seek indemnification, and, on remand, the Pinellas County Circuit Court on June 25, 2009 reduced the damage award to approximately $6.5 million plus interest of approximately $2.0 million. Because the Company cannot predict the outcome of this action at this time, no costs have been accrued for any loss contingency; however, the Company does not expect this matter to have a material effect on the Company s financial position or results of operations.

From time to time, the Company provides indemnification provisions in agreements with customers covering potential claims by third parties of intellectual property infringement. These agreements generally provide that the Company will indemnify customers for losses incurred in connection with an infringement claim brought by a third party with respect to the Company s products. These indemnification provisions generally offer perpetual coverage for infringement claims based upon the products covered by the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is theoretically unlimited; however, to date, the Company has not incurred material costs related to these indemnification provisions. As a result, the Company believes the estimated fair value of these indemnification provisions is minimal.

As permitted under Delaware law and pursuant to the Company s Third Amended and Restated Certificate of Incorporation, as amended, the Company is obligated to indemnify its current and former officers and directors for certain events that occur or occurred while the officer or director is or was serving in such capacity. The term of the indemnification period is for each respective officer s or director s lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification obligations is unlimited; however, the Company has mitigated the exposure through the purchase of directors and officers insurance, which is intended to limit the risk and, in most cases, enable the Company to recover all or a portion of any future amounts paid. As a result of this insurance coverage, the Company believes the estimated fair value of these indemnification obligations is minimal.

The Company, through third parties, provides lease financing options to its customers, including end users and, on a limited basis, resellers. During the terms of these leases, which are generally three years, the Company may remain liable for any unpaid principal balance upon default by the customer, but such liability is limited in the aggregate based on a percentage of initial amounts funded or, in certain cases, amounts of unpaid balances. At June 30, 2009 and December 31, 2008, the Company s maximum recourse exposure totaled approximately $2.7 million and $4.6 million, respectively. The Company records revenues from these transactions upon the shipment of products, provided that all other revenue recognition criteria, including collectibility being reasonably assured, are met. Because the Company has been providing financing options to its customers for many years, the Company has a substantial history of collecting under these arrangements without providing significant refunds or concessions to the end user, reseller or financing party. To date, the payment default loss has consistently been between 2% and 6.5% per year of the original funded amount. The Company maintains a reserve for estimated losses under recourse lease programs based on historical default rates applied to the funded amount outstanding at period end. At June 30, 2009 and December 31, 2008, the Company s accruals for estimated losses were $1.3 million and $0.8 million, respectively.

The Company provides 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, the Company records an accrual for the related liability based on historical trends and actual material and labor costs. The warranty period for all of the Company s products is generally 90 days to one year, but can extend up to five years depending on the manufacturer s warranty or local law.

The following table sets forth activity for the Company s product warranty accrual (in thousands):

	Six Months Ended June 30, 2009	2008
Accrual balance at beginning of period	$5,193	$ 5,803
Accruals for product warranties	3,377	4,180
Cost of warranty claims	(3,639)	(3,800)
Accrual balance at end of period	$4,931	$ 6,183

13. COMPREHENSIVE LOSS

Total comprehensive loss, net of taxes, consists of net loss and the net changes in foreign currency translation adjustment and net unrealized gains and losses on available-for-sale securities and other investments. The following is a summary of the Company s comprehensive loss for the three- and six-month periods ended June 30, 2009 and 2008 (in thousands):

	Three Months Ended June 30, 2009	2008	Six Months Ended June 30, 2009	2008
Net loss	$(15,949)	$(10,385)	$(33,226)	$(31,533)
Net changes in:				
Foreign currency translation adjustment	5,211	(510)	1,290	2,659
Unrealized gains	79		38	14
Total comprehensive loss	$(10,659)	$(10,895)	$(31,898)	$(28,860)

14. SEGMENT INFORMATION

Since the acquisition of Pinnacle Systems, Inc. in 2005 and through 2008, the Company was organized into three strategic business units, Professional Video, Audio, and Consumer Video, each of which was a reportable segment. On January 1, 2009, the Company transitioned to a new business structure that combined the previous Professional Video and Consumer Video units into a single Video reporting segment. The Company also consolidated its sales and marketing teams, which had previously been aligned with the reporting segments, into a single customer-facing organization. Consequently, most marketing and selling expenses are no longer managed by or controlled at the segment level and are, therefore, excluded from the calculation of segment contribution margin. The Company also continues to exclude certain other costs and expenses when evaluating reportable segment performance and profitability, including general and administrative expenses, corporate research and development expenses, the amortization and impairment of acquired intangible assets, stock-based compensation expenses and restructuring expenses. The Company has revised the prior period segment disclosures to conform to the current presentation. The change to the current presentation did not affect the Company s consolidated operating results.

The following is a summary of the Company s revenues and contribution margin by reportable segment for the three-and six-month periods ended June 30, 2009 and 2008 and a reconciliation of segment contribution margin to total consolidated operating loss for each period (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2009	2008	June 30, 2009	2008
Revenues:				
Video (a)	$88,699	$147,548	$176,201	$272,575
Audio	61,844	75,315	125,971	148,554
Total revenues	$150,543	$222,863	$302,172	$421,129
Contribution Margin:				
Video	$25,233	$43,616	$46,513	$72,086
Audio	21,831	26,460	44,561	52,785
Segment contribution margin	47,064	70,076	91,074	124,871
Less unallocated costs and expenses:				
Research and development	(1,837)	(1,731)	(3,591)	(3,501)
Marketing and selling	(38,056)	(50,710)	(75,571)	(97,178)
General and administrative	(11,467)	(16,164)	(24,463)	(35,550)
Amortization of acquisition-related intangible assets	(3,048)	(5,593)	(5,943)	(12,234)
Stock-based compensation	(2,894)	(4,588)	(7,042)	(6,733)
Restructuring costs, net	(5,019)	(937)	(10,040)	(2,000)
Consolidated operating loss	$(15,257)	$(9,647)	$(35,576)	$(32,325)

(a) *Video revenues for the three months ended June 30, 2009 and 2008, respectively, include revenues of $0.8 million and $16.6 million attributable to divested or exited product lines. Video revenues for the six months ended June 30, 2009 and 2008, respectively, include revenues of $1.8 million and $35.1 million attributable to divested or exited product lines.*

15. RESTRUCTURING COSTS AND ACCRUALS

In October 2008, the Company initiated a company-wide restructuring plan (the Plan) that included a reduction in force of approximately 500 positions, including employees related to product line divestitures, and the closure of all or parts of some worldwide facilities. The restructuring plan is intended to improve operational efficiencies. In connection with the Plan, during the fourth quarter of 2008 the Company recorded restructuring charges of $20.4 million related to employee termination costs and $0.5 million for the closure of three small facilities. In addition, as a result of the decision to sell the PCTV product line, the Company recorded a non-cash restructuring charge of $1.9 million in cost of revenues related to the write-down of inventory. Of the total restructuring charge of $22.8 million recorded in the fourth quarter of 2008, $16.9 million related to the Video segment, $3.3 million related to the Audio segment and $2.6 million related to corporate operations.

During the first and second quarters of 2009, respectively, the Company recorded new restructuring charges totaling $3.6 million and $4.6 million under the Plan, of which $4.3 million related to the closure of all or part of nine facilities; $3.1 million related to the termination of the employment of 48 additional employees; and $0.8 million, recorded in cost of revenues, related to the write-down of PCTV inventory. Also during the first six months of 2009, the Company recorded revisions to previously recorded restructuring estimates of $1.8 million and $0.1 million for severance and facility obligations, respectively, related to the Plan. Of the total Plan restructuring charges of $10.1 million recorded in the first six months of 2009, $5.6 million related to corporate operations, $3.5 million related to the Video segment and $1.0 million related to the Audio segment.

During the first quarter of 2008, the Company initiated restructuring plans within its Video business unit and corporate operations to eliminate duplicative business functions and improve operational efficiencies. During the first quarter of 2008, restructuring charges of $1.2 million were recorded under these plans related to employee termination costs for 20 employees, primarily in the marketing and selling teams and general and administrative teams. During the second quarter of 2008, the Company recorded restructuring charges of $1.0 million under these plans primarily related to employee termination costs for 26 employees, mainly in the research and development teams and sales and marketing teams. During the third quarter of 2008, the Company recorded restructuring charges of $2.0 million under these plans primarily related to employee termination costs for 45 employees, mainly in the research and development teams and general and administrative teams. Also during 2008, restructuring charges totaling $0.2 million were recorded for revised estimates of previously initiated restructuring plans.

The Company recorded the facility-related restructuring charges and, prior to the fourth quarter of 2008, the employee-related restructuring charges in accordance with the guidance of SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. Since the fourth quarter of 2008, as a result of changes in the Company s policies related to the calculation of severance benefits, the Company has accounted for employee-related restructuring charges in accordance with SFAS No. 112, *Employers Accounting for Postemployment Benefits.* Restructuring charges and accruals require significant estimates and assumptions, including sub-lease income assumptions. These estimates and assumptions are monitored on at least a quarterly basis for changes in circumstances and any corresponding adjustments to the accrual are recorded in the Company s statement of operations in the period when such changes are known.

The following table sets forth the activity in the restructuring accruals for the six months ended June 30, 2009 (in thousands):

	Non-Acquisition-Related Restructuring Liabilities		**Acquisition-Related Facilities Restructuring Liabilities**	**Total**
	Employee-Related	**Facilities-Related & Other**		
Accrual balance at December 31, 2008	$15,089	$2,199	$ 829	$18,117
New restructuring charges operating expenses	3,064	4,316		7,380
New restructuring charges cost of revenues				