

AVID TECHNOLOGY, INC.
Form 10-Q
August 09, 2011

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 June 30, 2011

OR

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

For the transition period from _____ to _____

Commission File Number: 0-21174

Avid Technology, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

04-2977748
(I.R.S. Employer
Identification No.)

75 Network Drive
Burlington, Massachusetts 01803
(Address of Principal Executive Offices, Including Zip Code)

(978) 640-6789
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Edgar Filing: AVID TECHNOLOGY, INC. - Form 10-Q

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 <input type="checkbox"/>	Accelerated Filer S
Non-accelerated Filer <input type="checkbox"/>	Smaller Reporting
(Do not check if smaller reporting company)	Company <input type="checkbox"/>

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 August 2, 2011 was 38,536,531.

AVID TECHNOLOGY, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011

TABLE OF CONTENTS

	Page	
<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	
<u>ITEM 1.</u>	<u>Condensed Consolidated Financial Statements:</u>	
	· <u>Condensed Consolidated Statements of Operations (unaudited) for the three and six months ended June 30, 2011 and 2010</u>	1
	· <u>Condensed Consolidated Balance Sheets (unaudited) as of June 30, 2011 and December 31, 2010</u>	2
	· <u>Condensed Consolidated Statements of Cash Flows (unaudited) for the six months ended June 30, 2011 and 2010</u>	3
	· <u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	4
<u>ITEM 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>ITEM 3.</u>	<u>Quantitative and Qualitative Disclosure About Market Risk</u>	41
<u>ITEM 4.</u>	<u>Controls and Procedures</u>	43
<u>PART II.</u>	<u>OTHER INFORMATION</u>	
<u>ITEM 1.</u>	<u>Legal Proceedings</u>	44
<u>ITEM 1A.</u>	<u>Risk Factors</u>	44
<u>ITEM 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
<u>ITEM 6.</u>	<u>Exhibits</u>	44
<u>SIGNATURE</u>		45
<u>EXHIBIT INDEX</u>		46

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, 2010, 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,	
	2011	2010	2011	2010
Net revenues:				
Products	\$ 129,190	\$ 134,134	\$ 266,525	\$ 262,813
Services	32,154	28,026	61,142	55,303
Total net revenues	161,344	162,160	327,667	318,116
Cost of revenues:				
Products	62,964	65,837	127,615	129,106
Services	15,312	13,139	29,699	27,179
Amortization of intangible assets	685	946	1,351	1,912
Total cost of revenues	78,961	79,922	158,665	158,197
Gross profit	82,383	82,238	169,002	159,919
Operating expenses:				
Research and development	30,453	30,268	60,426	60,419
Marketing and selling	46,052	44,474	90,862	86,220
General and administrative	14,920	13,879	30,218	28,481
Amortization of intangible assets	2,161	2,417	4,306	5,274
Restructuring and other (recoveries) costs, net	(163)	4,007	(2,379)	5,347
Loss on sales of assets	597	—	597	—
Total operating expenses	94,020	95,045	184,030	185,741
Operating loss	(11,637)	(12,807)	(15,028)	(25,822)
Interest income	9	6	68	141
Interest expense	(717)	(252)	(1,139)	(461)
Other income (expense), net	(60)	144	3	218
Loss before income taxes	(12,405)	(12,909)	(16,096)	(25,924)
(Benefit from) provision for income taxes, net	(543)	(3)	883	464
Net loss	\$ (11,862)	\$ (12,906)	\$ (16,979)	\$ (26,388)
Net loss per common share – basic and diluted	\$ (0.31)	\$ (0.34)	\$ (0.44)	\$ (0.70)
Weighted-average common shares outstanding – basic and diluted	38,413	37,909	38,323	37,714

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, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 37,557	\$ 42,782
Accounts receivable, net of allowances of \$15,400 and \$17,149 at June 30, 2011 and December 31, 2010, respectively	98,386	101,171
Inventories	129,795	108,357
Deferred tax assets, net	1,144	1,068
Prepaid expenses	7,628	7,688
Other current assets	15,622	16,130
Total current assets	290,132	277,196
Property and equipment, net	59,254	62,519
Intangible assets, net	24,625	29,750
Goodwill	247,520	246,997
Other assets	11,065	10,109
Total assets	\$ 632,596	\$ 626,571
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Borrowings under revolving credit facilities	\$ 13,000	\$ —
Accounts payable	44,777	47,340
Accrued compensation and benefits	31,834	41,101
Accrued expenses and other current liabilities	35,560	40,986
Income taxes payable	2,801	4,640
Deferred revenues	49,341	40,585
Total current liabilities	177,313	174,652
Long-term liabilities	28,036	25,309
Total liabilities	205,349	199,961
Contingencies (Note 11)		
Stockholders' equity:		
Common stock	423	423
Additional paid-in capital	1,012,348	1,005,198
Accumulated deficit	(515,963)	(495,254)
Treasury stock at cost, net of reissuances	(84,834)	(91,025)
Accumulated other comprehensive income	15,273	7,268
Total stockholders' equity	427,247	426,610
Total liabilities and stockholders' equity	\$ 632,596	\$ 626,571

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,	
	2011	2010
Cash flows from operating activities:		
Net loss	\$ (16,979)	\$ (26,388)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	15,875	16,497
Provision for (recoveries of) doubtful accounts	459	(10)
Non-cash provision for restructuring	125	249
Loss on sales of assets	597	—
Gain on disposal of fixed assets	(6)	(46)
Compensation expense from stock grants and options	8,262	6,986
Unrealized foreign currency transaction losses (gains)	6,490	(5,248)
Changes in deferred tax assets and liabilities, excluding initial effects of acquisitions	(4)	(250)
Changes in operating assets and liabilities, excluding initial effects of acquisitions:		
Accounts receivable	2,228	(17,521)
Inventories	(21,438)	1,744
Prepaid expenses and other current assets	(208)	5,269
Accounts payable	(2,625)	20,920
Accrued expenses, compensation and benefits, and other liabilities	(16,246)	(18,482)
Income taxes payable	(2,031)	(967)
Deferred revenues	11,815	8,346
Net cash used in operating activities	(13,686)	(8,901)
Cash flows from investing activities:		
Purchases of property and equipment	(6,078)	(22,509)
(Increase) decrease in other long-term assets	(574)	67
Payments for business acquisitions, net of cash acquired	—	(27,008)
Purchases of marketable securities	—	(2,250)
Proceeds from sales of marketable securities	—	19,605
Net cash used in investing activities	(6,652)	(32,095)
Cash flows from financing activities:		
Proceeds from (payments related to) the issuance of common stock under employee stock plans, net	1,349	(322)
Proceeds from revolving credit facilities	21,000	—
Payments on revolving credit facilities	(8,000)	—
Net cash provided by (used in) financing activities	14,349	(322)
Effect of exchange rate changes on cash and cash equivalents	764	(3,406)
Net decrease in cash and cash equivalents	(5,225)	(44,724)
Cash and cash equivalents at beginning of period	42,782	91,517
Cash and cash equivalents at end of period	\$ 37,557	\$ 46,793

Edgar Filing: AVID TECHNOLOGY, INC. - Form 10-Q

Supplemental information:

Cash paid for income taxes, net of refunds	\$	2,541	\$	2,472
--	----	-------	----	-------

Non-cash investing activities:

Landlord allowance for leasehold improvements	\$	—	\$	6,036
---	----	---	----	-------

Issuance of common stock for business acquisition	\$	—	\$	5,776
---	----	---	----	-------

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 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, 2010 was derived from the Company’s audited consolidated financial statements, 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, 2010 in its 2010 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. Certain prior period amounts have been reclassified to conform to the current year presentation.

The Company’s preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. The most significant estimates reflected in these financial statements include revenue recognition, stock-based compensation, accounts receivable and sales allowances, inventory valuation, goodwill and intangible asset valuations, fair value measurements and income tax asset valuation allowances. Actual results could differ from the Company’s estimates.

The Company evaluated subsequent events through the date of issuance of these financial statements and determined that no recognized or unrecognized subsequent events required recognition or disclosure.

Revenue Recognition

In October 2009, the Financial Accounting Standards Board (“FASB”), issued Accounting Standards Update (“ASU”) No. 2009-13, Multiple-Deliverable Revenue Arrangements, an amendment to Accounting Standards Codification (“ASC”) Topic 605, Revenue Recognition, and ASU No. 2009-14, Certain Revenue Arrangements That Include Software Elements, an amendment to ASC Subtopic 985-605, Software – Revenue Recognition (the “Updates”). ASU No. 2009-13 requires the allocation of revenue to each unit of accounting using the relative selling price of each deliverable for multiple-element arrangements. ASU No. 2009-13 also amends the accounting for multiple-element arrangements to provide guidance on how the deliverables in an arrangement should be separated and eliminates the use of the residual method by establishing a hierarchy of evidence to determine the stand-alone selling price of a deliverable based on vendor-specific objective evidence (“VSOE”), third-party evidence (“TPE”) and the best estimate of selling price (“ESP”). If VSOE is available, it is used to determine the selling price of a deliverable. If VSOE is not available, the entity must determine whether TPE is available. If so, TPE would be used to determine the selling price. If TPE is not available, then the entity would be required to determine its ESP. ASU No. 2009-14 amends ASC Subtopic 985-605 to exclude from the scope of software revenue recognition requirements sales of tangible products that contain both software and

non-software components that function together to deliver the essential functionality of the tangible products. The Updates also include new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. The Updates must be adopted in the same period using the same transition method and are effective prospectively, with retrospective adoption permitted. The Company adopted the Updates prospectively on January 1, 2011 for new and materially modified arrangements originating after December 31, 2010.

Prior to adoption of the Updates, the Company generally recognized revenues using the revenue recognition criteria of FASB ASC Subtopic 985-605, Software – Revenue Recognition. As a result of adoption of ASU No. 2009-14 on January 1, 2011, the Company now typically recognizes revenue using the criteria of FASB ASC Topic 605, Revenue Recognition. Historically, the Company was generally able to establish VSOE for undelivered elements in multiple-element arrangements as allowed by ASC Subtopic 985-605 and, therefore, could typically recognize revenues for each element of multiple-element arrangements as the element was delivered. Under the new guidance, revenue may be recognized in an earlier period for a limited number of multiple-element arrangements for which VSOE could not be established for all undelivered elements under the previous guidance. For those arrangements, the Company will now determine a relative selling price for the undelivered elements through the use of TPE or ESP, and the recognition of certain revenues that would have been deferred under the previous guidance will likely be recognized at the time of delivery under the new guidance, provided all other criteria for revenue recognition are met. For the three and six months ended June 30, 2011, adoption of the Updates resulted in increases in total revenues of approximately \$1.8 million and \$6.3 million, respectively. These increases were primarily the result of sales arrangements now accounted for under the guidance of ASU No. 2009-13 that contained undelivered elements for which VSOE of fair value could not be established as of June 30, 2011. The Company cannot reasonably estimate the effect of the adoption of the Updates on future financial periods as the impact will vary depending on the nature and volume of new or materially modified arrangements in any given period.

Effective January 1, 2011, the Company adopted the following policy for Revenue Recognition.

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is probable. However, determining whether and when some of these criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenues the Company reports. For example, the Company often receives multiple purchase orders or contracts from a single customer or a group of related parties that are evaluated to determine if they are, in effect, parts of a single arrangement. If they are determined to be parts of a single arrangement, revenues are recorded as if a single multiple-element arrangement exists.

Generally, the products the Company sells do not require significant production, modification or customization of software. Installation of the products is generally routine, consists of implementation and configuration and does not have to be performed by Avid. However, certain transactions for the Company's video products, typically complex solution sales that include a significant number of products and may involve multiple customer sites, require the Company to perform an installation effort that it deems to be complex, non-routine and essential to the functionality of the products delivered. In these situations, the Company does not recognize revenues for either the products shipped or services performed until the essential services have been completed. In addition, if these orders include a customer acceptance provision, no revenues are recognized until the customer's formal acceptance of the products and services has been received.

In the first quarter of fiscal 2011, the Company adopted ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements, an amendment to ASC Topic 605, Revenue Recognition, and ASU No. 2009-14, Certain Revenue Arrangements That Include Software Elements, an amendment to ASC Subtopic 985-605, Software – Revenue Recognition. ASU No. 2009-13 requires the allocation of revenue, based on the relative selling price of each deliverable, to each unit of accounting for multiple-element arrangements. It also changes the level of evidence of standalone selling price required to separate deliverables by allowing a best estimate of the standalone selling price of deliverables when more objective evidence of fair value, such as vendor-specific objective evidence or third-party evidence, is not available. ASU No. 2009-14 amends ASC Subtopic 985-605 to exclude sales of tangible products containing both software and non-software components that function together to deliver the tangible products essential functionality from the scope of revenue recognition requirements for software arrangements. The Company adopted

this accounting guidance prospectively and applied its provisions to arrangements entered into or materially modified after December 31, 2010.

5

The Company recognizes revenue from the sale of non-software products, including software bundled with hardware that is essential to the functionality of the hardware, under the general revenue recognition accounting guidance of ASC Topic 605, Revenue Recognition and ASC Subtopic 605-25 Revenue Recognition – Multiple-Element Arrangements. The Company recognizes revenue in accordance with ASC Subtopic 985-605, Software – Revenue Recognition for the following types of sales transactions: (i) standalone sales of software products and related upgrades and (ii) sales of software elements that are bundled with non-software elements, when the software elements are not essential to the functionality of the non-software elements.

For 2011 and future periods, pursuant to the guidance of ASU No. 2009-13, when a sales arrangement contains multiple elements, such as non-software products, software products, customer support services, and/or professional services, the Company allocates revenue to each element based on the aforementioned selling price hierarchy. Revenue is allocated to the non-software deliverables as a group and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is then recognized using the guidance for recognizing software revenue, as amended.

The Company's process for determining its ESP for deliverables without VSOE or TPE involves management's judgment. The Company generally determines ESP based on the following.

- The Company utilizes a pricing model for its products to capture the right value given the product and market context. The model considers such factors as: (i) competitive reference prices for products that are similar but not functionally equivalent, (ii) differential value based on specific feature sets, (iii) geographic regions where the products are sold, (iv) customer price sensitivity, (v) price-cost-volume tradeoffs, and (vi) volume based pricing. Management approval ensures that all of the Company's selling prices are consistent and within an acceptable range for use with the relative selling price method.
- While the pricing model currently in use captures all critical variables, unforeseen changes due to external market forces may result in the revision of some of the Company's inputs. These modifications may result in consideration allocation in future periods that differs from the one presently in use. Absent a significant change in the pricing inputs, future changes in the pricing model are not expected to materially impact the Company's allocation of arrangement consideration.

From time to time, the Company offers certain customers free upgrades or specified future products or enhancements. For software products, if elements are undelivered at the time of product shipment and provided that the Company has vendor-specific objective evidence of fair value for the undelivered elements, the Company defers the fair value of the specified upgrade, product or enhancement and recognizes those revenues only upon later delivery or at the time at which the remaining contractual terms relating to the elements have been satisfied. If the Company cannot establish VSOE for each undelivered element, all revenue is deferred until all elements are delivered, the Company establishes VSOE or the remaining contractual terms relating to the undelivered elements have been satisfied. For non-software products, if elements are undelivered at the time of product shipment, the Company defers the relative selling price of the specified upgrade, product or enhancement and recognizes those revenues only upon later delivery or at the time at which the remaining contractual terms relating to the elements have been satisfied.

Approximately 61% of the Company's revenues for the first six months of 2011 were derived from indirect sales channels, including authorized resellers and distributors. Certain channel partners are offered limited rights of return, stock rotation and price protection. For these partners, the Company generally records a provision for estimated returns and other allowances as a reduction of revenues in the same period that related revenues are recorded in

accordance with ASC Subtopic 605-15, Revenue Recognition – Products. Management estimates must be made and used in connection with establishing and maintaining a sales allowance for expected returns and other credits. In making these estimates, the Company analyzes historical returns and credits and the amounts of products held by major resellers and considers the impact of new product introductions, changes in customer demand, current economic conditions and other known factors. While the Company believes it can make reliable estimates regarding these matters, these estimates are inherently subjective. The amount and timing of the Company’s revenues for any period may be affected if actual product returns or other reseller credits prove to be materially different from the Company’s estimates.

A portion of the Company's revenues from sales of consumer video-editing and audio products is derived from transactions with channel partners who have unlimited return rights and from whom payment is contingent upon the product being sold through to their customers. Accordingly, revenues for these channel partners are recognized when the products are sold through to the customer instead of being recognized at the time products are shipped to the channel partners.

At the time of a sales transaction, the Company makes an assessment of the collectability of the amount due from the customer. Revenues are recognized only if it is probable that collection will occur in a timely manner. In making this assessment, the Company considers customer credit-worthiness and historical payment experience. If it is determined from the outset of the arrangement that collection is not probable based on the Company's credit review process, revenues are recognized on a cash-collected basis to the extent that the other criteria of ASC Topic 605, ASC Subtopic 985-605 and Securities and Exchange Commission Staff Accounting Bulletin No. 104 are satisfied. At the outset of the arrangement, the Company assesses whether the fee associated with the order is fixed or determinable and free of contingencies or significant uncertainties. In assessing whether the fee is fixed or determinable, the Company considers the payment terms of the transaction, its collection experience in similar transactions without making concessions, and the Company's involvement, if any, in third-party financing transactions, among other factors. If the fee is not fixed or determinable, revenues are recognized only as payments become due from the customer, provided that all other revenue recognition criteria are met. If a significant portion of the fee is due after the Company's normal payment terms, which are generally 30 days, but can be up to 90 days, after the invoice date, the Company evaluates whether it has sufficient history of successfully collecting past transactions with similar terms. If that collection history is successful, revenues are recognized upon delivery of the products, assuming all other revenue recognition criteria are satisfied. If the Company were to change any of these assumptions and judgments, it could cause a material increase or decrease in the amount of revenue reported in a particular period.

Recent Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. This ASU eliminates the current option to report other comprehensive income and its components in the statement of changes in equity and requires an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate consecutive statements. ASU No. 2011-05 is effective for fiscal years and interim periods beginning after December 15, 2011, which is January 1, 2012 for Avid. While this ASU changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance; therefore, adoption will not have an impact on the Company's consolidated financial position, results of operations or cash flows.

In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This ASU amends current U.S. GAAP fair value measurement and disclosure guidance to be consistent with International Financial Reporting Standards, including increased transparency around valuation inputs and the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position, but for which the fair value of such items is required to be disclosed. ASU No. 2011-04 is effective for fiscal years and interim periods beginning after December 15, 2011, which is January 1, 2012 for Avid. Adoption is not expected to have an impact on the Company's consolidated financial position, results of operations or cash flows.

2. NET LOSS PER COMMON SHARE

Net loss per common share is presented for both basic loss per share (“Basic EPS”) and diluted 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 shares 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,	
	2011	2010	2011	2010
Options	3,903	5,236	3,357	4,831
Non-vested restricted stock and restricted stock units	810	453	600	466
Anti-dilutive potential common shares	4,713	5,689	3,957	5,297

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,	
	2011	2010	2011	2010
Options	166	20	247	14
Non-vested restricted stock and restricted stock units	36	29	103	37
Anti-dilutive common stock equivalents	202	49	350	51

3. FOREIGN CURRENCY FORWARD CONTRACTS

The Company has significant international operations and, therefore, the Company's revenues, earnings, cash flows and financial position are exposed to foreign currency risk from foreign-currency-denominated receivables, payables and sales transactions, as well as net investments in foreign operations. The Company derives more than half of its revenues from customers outside the United States. This business is, for the most part, transacted through international subsidiaries and generally in the currency of the end-user customers. Therefore, the Company is exposed to the risks that changes in foreign currency could adversely affect its revenues, net income and cash flow. The Company may use derivatives in the form of foreign currency forward contracts to manage certain short-term exposures to fluctuations in the foreign currency exchange rates that exist as part of its ongoing international business operations. The Company does not enter into any derivative instruments for trading or speculative purposes.

As required by FASB ASC Topic 815, Derivatives and Hedging, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as hedges of the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk are considered fair value hedges. Derivatives designated and qualifying as hedges of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency

exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. Under hedge accounting, the determination of hedge effectiveness is dependent upon whether the gain or loss on the hedging derivative is highly effective in offsetting the gain or loss in the value of the item being hedged. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though the Company elects not to apply hedge accounting under ASC Topic 815.

The Company from time to time may execute foreign currency forward contracts to hedge the foreign exchange currency risk associated with certain forecasted euro-denominated sales transactions. These contracts are designated and intended to qualify as cash flow hedges under the criteria of ASC Topic 815. The effective portion of the changes in the fair value of derivatives designated and qualifying as cash flow hedges are initially reported as a component of accumulated other comprehensive income (loss) in stockholders' equity and subsequently reclassified into revenues at the time the hedged transactions affect earnings. Any ineffective portion of the change in fair value is recognized directly into earnings. The Company did not use forward contracts to hedge the foreign exchange currency risk associated with its forecasted euro-denominated sales transactions during the three- and six-month periods ended June 30, 2011 and 2010, and no such foreign currency forward contracts existed at either June 30, 2011 or December 31, 2010.

In an effort to hedge against the foreign exchange exposure of certain forecasted receivables, payables and cash balances of foreign subsidiaries, the Company enters into short-term foreign currency forward contracts. The changes in fair value of the foreign currency forward contracts intended to offset foreign currency exchange risk on forecasted cash flows and net monetary assets are recorded as gains or losses in the Company's statement of operations in the period of change, because they do not meet the criteria of ASC Topic 815 to be treated as hedges for accounting purposes. There are two objectives of the Company's foreign currency forward contract program: (1) to offset any foreign exchange currency risk associated with cash receipts expected to be received from the Company's customers and cash payments expected to be made to the Company's vendors over the next 30-day period and (2) to offset the impact of foreign currency exchange on the Company's net monetary assets denominated in currencies other than the functional currency of the legal entity. These forward contracts typically mature within 30 days of execution.

At June 30, 2011 and December 31, 2010, the Company had foreign currency forward contracts outstanding with notional values of \$65.3 million and \$47.4 million, respectively, as hedges against forecasted foreign-currency-denominated receivables, payables and cash balances. The following table sets forth the balance sheet locations and fair values of the Company's foreign currency forward contracts at June 30, 2011 and December 31, 2010 (in thousands):

Derivatives Not Designated as Hedging Instruments under ASC Topic 815	Balance Sheet Location	Fair Value at June 30, 2011	Fair Value at December 31, 2010
Financial assets:			
Foreign currency forward contracts	Other current assets	\$242	\$389
Financial liabilities:			
Foreign currency forward contracts	Accrued expenses and other current liabilities	\$454	\$1

The following table sets forth the net foreign exchange gains recorded within marketing and selling expenses in the Company's statements of operations during the three- and six-month periods ended June 30, 2011 and 2010 that resulted from the Company's foreign exchange contracts not designated as hedging instruments and the revaluation of the related hedged items (in thousands):

Derivatives Not Designated as Hedging Instruments under ASC Topic 815	Net Gain Recorded in Marketing and Selling Expenses			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010

Foreign currency forward contracts	\$639	\$5	\$540	\$281
------------------------------------	-------	-----	-------	-------

See Note 4 for additional information on the fair value measurements for all financial assets and liabilities, including derivative assets and derivative liabilities, that are measured at fair value on a recurring basis.

4. FAIR VALUE MEASUREMENTS

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 and foreign currency forward contracts. At June 30, 2011, all of the Company's financial assets and liabilities were classified as either Level 1 or Level 2 in the fair value hierarchy as defined by FASB ASC Topic 820, Fair Value Measurements and Disclosure. Assets and liabilities valued using quoted market prices in active markets and classified as Level 1 are certain deferred compensation investments and related obligations. Assets and liabilities valued based on other observable inputs and classified as Level 2 are foreign currency forward contracts and certain deferred compensation obligations.

The following tables summarize the Company's fair value hierarchy for financial assets and liabilities measured at fair value on a recurring basis at June 30, 2011 and December 31, 2010 (in thousands):

	June 30, 2011	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Deferred compensation assets	\$ 1,113	\$ 1,113	\$ —	\$ —
Foreign currency forward contracts	242	—	242	—
Financial Liabilities:				
Deferred compensation obligations	\$ 4,033	\$ 1,113	\$ 2,920	\$ —
Foreign currency forward contracts	454	—	454	—

	December 31, 2010	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Benefit plan and deferred compensation assets	\$ 1,366	\$ 998	\$ 368	\$ —
Foreign currency forward contracts	389	—	389	—
Financial Liabilities:				
Benefit plan and deferred compensation obligations	\$ 4,226	\$ 998	\$ 3,228	\$ —
Foreign currency forward contracts	1	—	1	—

The fair values of level 1 benefit plan and deferred compensation assets and the corresponding obligations are based on quoted market prices. The fair values of level 2 benefit plan and deferred compensation assets are determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values of level 2 benefit plan and deferred compensation liabilities are derived using valuation models, such as the

projected unit credit method, with significant inputs derived from or corroborated by observable market data, such as mortality and disability rates from published sources, for example the RT 2005 G mortality tables, and discount rates that are observable at commonly quoted intervals.

The fair values of foreign currency forward contracts are measured at fair value on a recurring basis based on the changes in fair value of the foreign currency forward contracts and are classified as level 2 in the fair value hierarchy. The primary input used to fair value foreign currency forward contracts are published foreign currency exchange rates as of the date of valuation. See Note 3 for further information on the Company's foreign currency forward contracts.

The carrying amounts of our other financial assets and liabilities including accounts receivable, borrowings under revolving credit facilities, accounts payable and accrued liabilities approximate their respective fair values because of the relatively short period of time between their origination and their expected realization.

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 six-month period ended June 30, 2011 and the twelve-month period ended December 31, 2010 (in thousands):

	Six Months Ended June 30, 2011	Fair Value Measurements Using				Total Related Expenses
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Liabilities:						
Facilities-related restructuring accruals	\$ 1,542	\$ —	\$ 1,542	\$ —	\$ —	\$ 1,542

	Twelve Months Ended December 31, 2010	Fair Value Measurements Using				Total Related Expenses
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Liabilities:						
Facilities-related restructuring accruals	\$ 4,718	\$ —	\$ 4,718	\$ —	\$ —	\$ 4,718

During the six-month period ended June 30, 2011 and the twelve-month period ended December 31, 2010, the Company recorded restructuring accruals associated with exiting all or portions of certain leased facilities and for revised estimates related to previously exited 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. See Note 16 for further information on the Company's restructuring activities.

5. ACCOUNTS RECEIVABLE

Accounts receivable, net of allowances, consisted of the following at June 30, 2011 and December 31, 2010 (in thousands):

	June 30, 2011	December 31, 2010
Accounts receivable	\$ 113,786	\$ 118,320
Less:		

Edgar Filing: AVID TECHNOLOGY, INC. - Form 10-Q

Allowance for doubtful accounts	(1,968)	(3,051)
Allowance for sales returns and rebates	(13,432)	(14,098)
	\$ 98,386	\$ 101,171

The accounts receivable balances at June 30, 2011 and December 31, 2010 excluded approximately \$9.0 million and \$16.1 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, 2011 and December 31, 2010 (in thousands):

	June 30, 2011	December 31, 2010
Raw materials	\$ 12,318	\$ 12,147
Work in process	614	411
Finished goods	116,863	95,799
	\$ 129,795	\$ 108,357

At June 30, 2011 and December 31, 2010, the finished goods inventory included inventory at customer locations of \$12.2 million and \$12.5 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, 2011 and December 31, 2010 (in thousands):

	June 30, 2011	December 31, 2010
Computer and video equipment and software	\$ 131,742	\$ 125,690
Manufacturing tooling and testbeds	6,252	6,234
Office equipment	4,855	4,785
Furniture and fixtures	12,909	12,745
Leasehold improvements	35,965	37,002
	191,723	186,456
Accumulated depreciation and amortization	(132,469)	(123,937)
	\$ 59,254	\$ 62,519

During the three months ended June 30, 2011, the Company determined it was appropriate to revise the way it classifies certain fixed assets. As a result, approximately \$2.6 million of fixed assets previously reported as leasehold improvements at December 31, 2010 have been included in office equipment for the current presentation.

8. ACQUISITIONS

Euphonix, Inc.

On April 21, 2010, the Company acquired Euphonix, Inc. ("Euphonix"), a California-based provider of large-format digital audio consoles, media controllers and peripherals, for cash, net of cash acquired, of \$10.9 million and 327,439 shares of the Company's common stock valued at \$5.8 million. During the three months ended March 31, 2011, the Company completed its evaluation of the information necessary to determine the fair value of the acquired assets and liabilities of Euphonix and finalized the purchase price allocation as follows (in thousands):

Tangible assets acquired, net	\$ 2,008
Identifiable intangible assets:	
Developed technology	2,200
Customer relationships	1,700

Edgar Filing: AVID TECHNOLOGY, INC. - Form 10-Q

Trademarks and trade name	700
Non-compete agreement	200
Goodwill	10,349
Deferred tax liabilities, net	(460)
Total assets acquired	\$ 16,697

12

The Company used the income approach to determine the values of the identifiable intangible assets. The income approach presumes that the value of an asset can be estimated by the net economic benefit to be received over the life of the asset discounted to present value. The weighted-average discount rate (or rate of return) used to determine the value of Euphonix's intangible assets was 23% and the effective tax rate used was 35%.

The goodwill, which is not deductible for tax purposes, reflects the value of the assembled workforce and the company-specific synergies the Company expects to realize by selling Euphonix's digital audio consoles, media controllers and peripherals to its existing customers.

The results of operations of Euphonix have been included prospectively in the results of operations of the Company since the date of acquisition. The Company's results of operations giving effect to the Euphonix acquisition as if it had occurred at the beginning of 2010 would not differ materially from reported results.

Blue Order Solutions AG

On January 5, 2010, the Company acquired all the outstanding shares of Blue Order Solutions AG ("Blue Order"), a Germany-based developer and provider of workflow and media asset management solutions, for cash, net of cash acquired, of \$16.1 million. During the three months ended March 31, 2011, the Company completed its evaluation of the information necessary to determine the fair value of the acquired assets and liabilities of Blue Order and finalized the purchase price allocation as follows (in thousands):

Tangible liabilities assumed, net	\$ (2,375)
Identifiable intangible assets:	
Core technology	4,597
Customer relationships	3,160
Non-compete agreements	1,293
Trademarks and trade name	287
Goodwill	9,711
Deferred tax liabilities, net	(586)
Total assets acquired	\$ 16,087

The Company used the cost approach to value the core technology intangible asset and the income approach to determine the values of the customer relationships, non-compete agreements and trademarks and trade names intangible assets. The cost approach measures the value of an asset by quantifying the aggregate expenditures that would be required to replace the asset. The income approach presumes that the value of an asset can be estimated by the net economic benefit to be received over the life of the asset discounted to present value. The weighted-average discount rate (or rate of return) used to determine the value of Blue Order's intangible assets was 20% and the effective tax rate used was 30%.

The goodwill, which is not deductible for tax purposes, reflects the value of the assembled workforce and the customer-specific synergies the Company expects to realize by incorporating Blue Order's workflow and media asset management technology into future solutions offered to customers.

The results of operations of Blue Order have been included prospectively in the results of operations of the Company since the date of acquisition. The Company's results of operations giving effect to the Blue Order acquisition as if it had occurred at the beginning of 2010 would not differ materially from reported results.

9. GOODWILL AND INTANGIBLE ASSETS

Goodwill

Goodwill resulting from the Company's acquisitions consisted of the following at June 30, 2011 and December 31, 2010 (in thousands):

	June 30, 2011	December 31, 2010
Goodwill	\$ 419,420	\$ 418,897
Accumulated impairment losses	(171,900)	(171,900)
	\$ 247,520	\$ 246,997

Changes in the carrying amount of the Company's goodwill during the six months ended June 30, 2011 consisted of the following (in thousands):

	Total
Goodwill balance at December 31, 2010	\$ 246,997
Blue Order acquisition purchase accounting allocation adjustments	(105)
Euphonix acquisition purchase accounting allocation adjustments	(176)
Foreign exchange and other adjustments	804
Goodwill balance at June 30, 2011	\$ 247,520

There were no interim indicators of goodwill impairment during the three or six months ended June 30, 2011.

Identifiable Intangible Assets

Identifiable intangible assets resulting from the Company's acquisitions consisted of the following at June 30, 2011 and December 31, 2010 (in thousands):

	June 30, 2011			December 31, 2010		
	Gross	Accumulated Amortization	Net(a)	Gross	Accumulated Amortization	Net
Completed technologies and patents	\$ 75,263	\$ (69,525)	\$ 5,738	\$ 74,820	\$ (68,026)	\$ 6,794
Customer relationships	68,587	(51,009)	17,578	68,330	(47,344)	20,986
Trade names	14,797	(14,220)	577	14,772	(13,737)	1,035
License agreements	560	(560)	—	560	(560)	—
Non-compete agreements (b)	1,502	(770)	732	1,576	(641)	935
	\$ 160,709	\$ (136,084)	\$ 24,625	\$ 160,058	\$ (130,308)	\$ 29,750

(a) The June 30, 2011 net amounts include foreign currency translation changes of approximately \$0.5 million from the December 31, 2010 amounts.

(b) During the six months ended June 30, 2011, the Company wrote-off a fully amortized non-compete agreement with a gross value of approximately \$0.2 million.

Amortization expense related to all intangible assets in the aggregate was \$2.8 million and \$3.4 million for the three-month periods ended June 30, 2011 and 2010, respectively, and \$5.7 million and \$7.2 million for the six-month periods ended June 30, 2011 and 2010, respectively. The Company expects amortization of these intangible assets to be approximately \$6 million for the remainder of 2011, \$8 million in 2012, \$5 million in 2013, \$3 million in 2014, \$2 million in 2015 and \$1 million in 2016.

10. LONG-TERM LIABILITIES

Long-term liabilities consisted of the following at June 30, 2011 and December 31, 2010 (in thousands):

	June 30, 2011	December 31, 2010
Long-term deferred tax liabilities, net	\$ 2,256	\$ 2,154
Long-term deferred revenue	12,023	8,923
Long-term deferred rent	10,847	11,094
Long-term accrued restructuring	2,910	3,138
	\$ 28,036	\$ 25,309

11. 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 is not aware of any current claims that will have a material adverse effect on the financial position or results of operations of the Company.

Opengate SpA ("Opengate"), an entity in liquidation represented by the Trustee in Bankruptcy, Dr. Marco Fiorentini, brought a claim against the Company's subsidiary, Pinnacle Systems GmbH ("Pinnacle GmbH"), in the Varese, Italy Tribunal on July 21, 2009. The Trustee in Bankruptcy sought to recover €2,700,000 in payments made by Opengate to Pinnacle GmbH between 2002 and 2003, the year prior to Opengate being placed into administration. In June 2011, the Company and Opengate agreed to settle the claim, and an immaterial settlement amount was accrued by the Company as a loss contingency. The Company expects that the settlement will be finalized and the settlement amount will be paid to Opengate during the third quarter of 2011.

The Company's Canadian subsidiary, Avid Technology Canada Corporation, was assessed and paid to the Ministry of Revenue Quebec ("MRQ") approximately CAN\$1.7 million for social tax assessments on Canadian employee stock-based compensation related to the Company's stock plans. The Company is currently attempting to recover the payments against these assessments through litigation with the MRQ. The payment amounts were recorded in "other current assets" in the Company's consolidated balance sheets at June 30, 2011 and December 31, 2010. Because the Company cannot predict the outcome of the litigation at this time or the amount of potential losses, if any, no costs have been accrued for any loss contingency; however, this matter is not expected 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 has three letters of credit at a bank that are used as security deposits in connection with the Company's Burlington, Massachusetts office space. In the event of default on the underlying leases, the landlords at June 30, 2011 would have been eligible to draw against the letters of credit up to a maximum of \$2.6 million in the aggregate. The letters of credit are subject to aggregate reductions of approximately \$0.4 million at the end of each of the second, third and fifth lease years, provided the Company is not in default of the underlying leases and meets certain financial performance conditions. In no case will the letters of credit amounts be reduced to below \$1.3 million in the aggregate throughout the lease periods, all of which extend to May 2020. At June 30, 2011, the Company was not in default of any of the underlying leases.

The Company also has a standby letter of credit at a bank that is used as a security deposit in connection with the Company's Daly City, California office space lease. In the event of default on this lease, the landlord would be eligible to draw against this letter of credit up to a maximum of \$0.8 million. The letter of credit will remain in effect at this amount throughout the remaining lease period, which extends to September 2014. At June 30, 2011, the Company was not in default of this lease.

The Company has in the past, through third parties, provided lease financing options to its customers, including end users and, on a limited basis, resellers. This program was terminated by mutual agreement among the parties in the fourth quarter of 2008; however, balances outstanding as of the termination date continue to be collected by the third-party lessors as they become due. During the terms of these leases, which are generally three years, and until all remaining outstanding balances are collected, 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, 2011 and December 31, 2010, the Company's maximum recourse exposure totaled approximately \$0.7 million and \$1.0 million, respectively. The Company recorded revenues from these transactions upon the shipment of products, provided that all other revenue recognition criteria, including collectibility being reasonably assured, were met. The Company maintains a reserve for estimated losses under this program based on historical default rates applied to the amount outstanding at period end. At June 30, 2011 and December 31, 2010, the Company's accruals for estimated losses were \$0.2 million and \$0.5 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 as recorded in "accrued expenses and other current liabilities" for the six-month periods ended June 30, 2011 and 2010 (in thousands):

Six Months Ended
June 30,

Edgar Filing: AVID TECHNOLOGY, INC. - Form 10-Q

	2011	2010
Accrual balance at beginning of period	\$ 4,492	\$ 4,454
Accruals for product warranties	3,193	2,590
Cost of warranty claims	(2,977)	(2,599)
Accrual balance at end of period	\$ 4,708	\$ 4,445

12. CREDIT FACILITIES

On October 1, 2010, Avid Technology, Inc. and certain of its subsidiaries (the “Borrowers”) entered into a Credit Agreement with Wells Fargo Capital Finance LLC (“Wells Fargo”), which established two revolving credit facilities with combined maximum borrowings of up to \$60 million. The actual amount of credit available to the Borrowers will vary depending upon changes in the level of the respective accounts receivable and inventory, and is subject to other terms and conditions which are more specifically described in the Credit Agreement. The credit facilities have a maturity date of October 1, 2014, at which time Wells Fargo’s commitments to provide additional credit shall be terminated and all outstanding borrowings by the Borrowers must be repaid. Prior to the maturity of the credit facilities, any amounts borrowed may be repaid and, subject to the terms and conditions of the Credit Agreement, reborrowed in whole or in part without penalty.

The Credit Agreement contains customary representations and warranties, covenants, mandatory prepayments, and events of default under which the Borrowers’ payment obligations may be accelerated, including guarantees and liens on substantially all of the Borrowers’ assets to secure their obligations under the Credit Agreement. The Credit Agreement requires that Avid Technology, Inc. (“Avid Technology”) maintain liquidity (comprised of unused availability under its portion of the credit facilities plus certain unrestricted cash and cash equivalents) of \$10 million, at least \$5 million of which must be from unused availability under its portion of the credit facilities, and its subsidiary, Avid Technology International B.V. (“Avid Europe”), is required to maintain liquidity (comprised of unused availability under Avid Europe’s portion of the credit facilities plus certain unrestricted cash and cash equivalents) of \$5 million, at least \$2.5 million of which must be from unused availability under Avid Europe’s portion of the credit facilities. Interest accrues on outstanding borrowings under the credit facilities at a rate of either LIBOR plus 2.75% or a base rate (as defined in the Credit Agreement) plus 1.75%, at the option of Avid Technology or Avid Europe, as applicable. The Borrowers must also pay Wells Fargo a monthly unused line fee at a rate of 0.625% per annum.

During the second quarter of 2011, Avid Technology borrowed \$13.0 million against the credit facilities to meet certain short-term cash requirements, none of which had been repaid as of the date of issuance of these financial statements. The weighted-average interest rate on the outstanding balance at June 30, 2011 was 5.00%. At June 30, 2011, the Borrowers were in compliance with all debt agreement covenants and had additional available borrowings under the credit facilities of approximately \$35.5 million after taking into consideration the liquidity covenant. Avid Technology or the other eligible borrowers under the credit facilities expect to borrow against the line of credit above the current outstanding borrowings to cover cash requirements during the remainder of the year as may be required to meet the short-term funding needs of the business.

13. ACCOUNTING FOR STOCK-BASED COMPENSATION

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. Options generally allow the purchase of common stock 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. Shares available for issuance under the Company’s Amended and Restated 2005 Stock Incentive Plan totaled 3,030,273 at June 30, 2011, including 373,627 shares that may alternatively be issued as awards of restricted stock or restricted stock units.

The Company records stock-based compensation cost for stock-based awards over the requisite service periods for the individual awards, which generally equal the vesting periods. Stock-compensation expense is recognized using the

straight-line attribution method. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock option grants with time-based vesting. The Black-Scholes model relies on a number of key assumptions to calculate estimated fair values. The fair values of restricted stock awards with time-based vesting, including restricted stock and restricted stock units, are based on the intrinsic values of the awards at the date of grant.

The Company also issues stock option grants or restricted stock unit awards with vesting based on market conditions, specifically the Company's stock price, or a combination of performance and market conditions, generally the Company's return on equity. The compensation costs and derived service periods for such grants 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 factored for the estimated probability of achieving the performance goals, and compensation costs for these grants are recorded based on the higher estimate for each vesting tranche. For restricted stock unit grants with vesting based on a combination of performance and market conditions, the compensation costs are also estimated based on the intrinsic values of the awards at the date of grant factored for the estimated probability of achieving the performance goals, and compensation costs for these grants are also recorded based on the higher estimate for each vesting tranche. For each stock option grant and restricted stock award with vesting based on a combination of performance and market conditions where vesting will occur if either condition is met, the related compensation costs are recognized over the shorter of the derived service period or implicit service period.

During the first quarter of 2010, the Company modified the vesting terms of certain outstanding stock options that had vesting based on market conditions. The modifications, which affected 16 employees, provide that the vesting of the underlying shares can also occur based on the achievement of certain additional performance-based criteria and resulted in a total incremental compensation charge of \$0.9 million, which is being recognized over the remaining derived service period of the stock options. The incremental compensation costs for the option modifications were based on the excess fair values of the modified options immediately after the modification, which were estimated using the Black-Scholes valuation method factored for the estimated probability of achieving the performance goals, compared to the fair values immediately before the modification estimated using the Monte Carlo valuation method.

The following table sets forth the weighted-average key assumptions and fair value results for stock options granted during the six-month periods ended June 30, 2011 and 2010:

	Six Months Ended June 30,	
	2011	2010
Expected dividend yield	0.00%	0.00%
Risk-free interest rate	2.21%	1.92%
Expected volatility	40.5%	46.1%
Expected life (in years)	4.49	4.50
Weighted-average fair value of options granted	\$7.89	\$5.56

The following table summarizes changes in the Company's stock options outstanding during the six months ended June 30, 2011:

	Shares	Stock Options		Aggregate Intrinsic Value (in thousands)
		Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	
Options outstanding at December 31, 2010	5,241,898	\$19.76		
Granted	990,900	\$21.24		
Exercised	(148,191)	\$13.10		

Edgar Filing: AVID TECHNOLOGY, INC. - Form 10-Q

Forfeited or expired	(318,709)	\$21.19		
Options outstanding at June 30, 2011 (a)	5,765,898	\$20.11	5.07 years	\$13,839
Options vested at June 30, 2011 or expected to vest	5,061,427	\$20.25	5.05 years	\$12,223
Options exercisable at June 30, 2011	1,786,251	\$22.91	4.52 years	\$4,325

(a) Options outstanding at June 30, 2011 included 1,760,155 options that had vesting based on either market conditions or a combination of performance and market conditions.

The aggregate intrinsic values of stock options exercised during the six-month periods ended June 30, 2011 and 2010 were approximately \$1.1 million and \$0.1 million, respectively. Cash amounts received from the exercise of stock options were \$1.9 million and \$0.3 million for the six-month periods ended June 30, 2011 and 2010, 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, 2011 and 2010 due to the full valuation allowance on the Company's U.S. deferred tax assets.

The following table sets forth the weighted-average key assumptions used for Monte Carlo valuations of restricted stock units with vesting based on market conditions or a combination of performance and market conditions granted during the six-month periods ended June 30, 2011 and 2010:

	Six Months Ended June 30,	
	2011	2010
Expected dividend yield	0.00%	0.00%
Risk-free interest rate	4.11%	4.16%
Expected volatility	41.4%	46.8%
Expected life (in years)	3.00	4.49

The following table summarizes changes in the Company's non-vested restricted stock units during the six months ended June 30, 2011:

	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, 2010	573,264	\$18.15		
Granted (a)	532,000	\$21.71		
Vested	(174,630)	\$26.53		
Forfeited	(12,282)	\$21.13		
Non-vested at June 30, 2011 (b)	918,352	\$19.41	2.35 years	\$17,293
Expected to vest	723,493	\$19.61	2.19 years	\$13,623

(a) Restricted stock units granted during the six months ended June 30, 2011 included 245,000 units that had vesting based on either market conditions or a combination of performance and market conditions.

(b) Non-vested restricted stock units at June 30, 2011 included 488,300 units that had vesting based on either market conditions or a combination of performance and market conditions.

The weighted-average fair value of restricted stock units granted during the six-month period ended June 30, 2010 was \$13.92.

The following table summarizes changes in the Company's non-vested restricted stock during the six months ended June 30, 2011:

	Non-Vested Restricted Stock		
	Shares	Weighted-Average	Weighted-Average
			Aggregate Intrinsic

Edgar Filing: AVID TECHNOLOGY, INC. - Form 10-Q

		Grant-Date Fair Value	Remaining Contractual Term	Value (in thousands)
Non-vested at December 31, 2010	25,000	\$25.41		
Granted	—	—		
Vested	(12,500)	\$25.41		
Forfeited	—	—		
Non-vested at June 30, 2011	12,500	\$25.41	0.47 years	\$235

Employee Stock Purchase Plan

The Company's Second Amended and Restated 1996 Employee Stock Purchase Plan (the "ESPP") offers the Company's 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 FASB ASC Subtopic 718-50, Compensation-Stock Compensation: Employee Stock Purchase Plans. Accordingly, the Company is required to assign fair value to, and record compensation expense for, share purchase rights granted under the ESPP.

The following table sets forth the weighted-average key assumptions and fair value results for share purchase rights granted under the ESPP during the six-month periods ended June 30, 2011 and 2010:

	Six Months Ended	
	June 30,	
	2011	2010
Expected dividend yield	0.00%	0.00%
Risk-free interest rate	0.23%	1.15%
Expected volatility	40.9%	44.9%
Expected life (in years)	0.24	0.24
Weighted-average fair value per right granted	\$2.83	\$2.24

Under the ESPP, the Company issued 40,915 shares at an average price per share of \$14.96 and 52,367 shares at an average price per share of \$11.50 during the six months ended June 30, 2011 and 2010, respectively. A total of 695,811 shares remained available for issuance under the ESPP at June 30, 2011.

Stock-Based Compensation

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, 2011, 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.

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, 2011 and 2010 (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Cost of product revenues	\$ 110	\$ 197	\$ 249	\$ 386
Cost of services revenues	277	282	545	535
Research and development expenses	427	547	899	1,198
Marketing and selling expenses	1,356	1,107	2,574	2,075
General and administrative expenses	2,355	1,531	3,995	2,792
Total stock-based compensation	\$ 4,525	\$ 3,664	\$ 8,262	\$ 6,986

Stock-based compensation expense increased for both the three- and six-month periods ended June 30, 2011, compared to the same periods in 2010, as a result of the timing of the Company's 2011 grant cycle and incremental expense related to the reversal of the forfeiture rate applied to certain grant tranches. At June 30, 2011, the Company had \$31.1 million of unrecognized compensation costs before forfeitures related to non-vested stock-based

compensation awards granted under its stock-based compensation plans.

14. STOCK REPURCHASES

In April 2007, the Company initiated a stock repurchase program that ultimately authorized the repurchase of up to \$200 million of the Company's common stock through transactions on the open market, in block trades or otherwise. At June 30, 2011, \$80.3 million remained available for future stock repurchases under the program. The stock repurchase program is funded through working capital and has no expiration date. No shares of common stock have been repurchased under this program since March 2008.

During the six months ended June 30, 2011, the Company acquired upon surrender 4,590 shares of restricted stock from an employee to pay the minimum required withholding taxes upon the vesting of restricted stock.

At June 30, 2011 and December 31, 2010, treasury shares held by the Company totaled 3,857,669 shares and 4,163,765 shares, respectively.

15. 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 marketable securities. The following is a summary of the Company's comprehensive loss for the three- and six-month periods ended June 30, 2011 and 2010 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net loss	\$ (11,862)	\$ (12,906)	\$ (16,979)	\$ (26,388)
Net changes in:				
Foreign currency translation adjustment	2,168	(6,018) ¹	7,560	(10,253) ¹
Unrealized gains from defined benefit plan	445	—	445	—
Unrealized losses on marketable securities	—	—	—	(4) ¹
Total comprehensive loss	\$ (9,249)	\$ (18,924)	\$ (8,974)	\$ (36,645)

16. RESTRUCTURING COSTS AND ACCRUALS

2010 Restructuring Plans

In December 2010, the Company initiated a worldwide restructuring plan (the "2010 Plan") designed to better align financial and human resources in accordance with its strategic plans for the upcoming fiscal year. In connection with the restructuring, the Company eliminated positions that were in lower growth geographies and markets and reinvested in more strategic areas with greater opportunity for growth. The 2010 Plan also called for streamlining internal operations while making key investments in organizational efficiencies and to close portions of certain office facilities. During the fourth quarter of 2010, the Company recorded total restructuring charges of \$13.1 million related to severance costs for the elimination of 145 positions and the partial closure of a facility. During the first six months of 2011, the Company revised its previously recorded estimates of the severance costs and recorded a restructuring benefit of \$3.9 million. The revisions primarily resulted from the final severance negotiations for certain European employees, as well as the transferring of certain employees into alternative positions at the Company. To date, total

restructuring charges of approximately \$9 million have been recorded under the 2010 Plan. The Company expects to record additional restructuring charges of approximately \$1 million and complete the actions under the 2010 Plan during 2011.

In the second quarter of 2010, the Company also initiated acquisition-related restructuring actions that resulted in restructuring charges of \$1.8 million for the severance costs for 24 former Euphonix employees and the closure of three Euphonix facilities. During the first six months of 2011, the Company recorded additional restructuring charges of approximately \$0.2 million primarily for revised estimates for the write-off of fixed assets related to the facilities closures.

2008 Restructuring Plan

In October 2008, the Company initiated a company-wide restructuring plan (the “2008 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 facilities worldwide. The 2008 Plan was intended to improve operational efficiencies and bring costs in line with expected revenues. In connection with the 2008 Plan, during the fourth quarter of 2008 the Company recorded restructuring charges of \$20.4 million related to employee termination costs, \$0.5 million for the closure of three small facilities and \$1.9 million in cost of revenues related to the write-down of inventory for a divested product line.

During 2009 and 2010, the Company recorded additional restructuring charges of \$30.0 million related to the 2008 Plan, including new restructuring charges of \$14.8 million related to employee termination costs for approximately 320 additional employees; \$12.3 million related to the closure of all or part of fifteen facilities; \$0.8 million, recorded in cost of revenues, related to a write-down of inventory; and \$2.1 million for revisions to previous estimates. The charges resulting from the reduction in force of 320 additional employees were recorded in the third and fourth quarters of 2009 and were primarily the result of the expanded use of offshore development resources for R&D projects and the Company’s desire to better align its 2010 cost structure with revenue expectations.

During the first six months of 2011, the Company recorded restructuring charges of \$1.4 million related to the 2008 Plan, for revised estimates of the costs associated with previously closed facilities.

No additional actions are expected to take place under the 2008 Plan. To date, restructuring charges of approximately \$54 million have been recorded under the 2008 Plan.

Restructuring and Other (Recoveries) Costs Summary

For the three- and six-month periods ended June 30, 2010, also included in the Company’s results of operations under the caption “restructuring and other (recoveries) costs, net” were costs of \$3.8 million related to the Company’s exit from its Tewksbury, Massachusetts headquarters lease. The following table summarizes restructuring and other (recoveries) costs for the three and six months ended June 30, 2011 and 2010 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Non-acquisition-related restructuring charges	\$ (163)	\$ 213	\$ (2,532)	\$ 828
Acquisition-related restructuring charges	—	—	153	725
Tewksbury facility exit costs	—	3,794	—	3,794
Restructuring and other (recoveries) costs, net	\$ (163)	\$ 4,007	\$ (2,379)	\$ 5,347

Accounting for Restructuring Plans

The Company recorded the employee-related restructuring charges as an ongoing benefit arrangement in accordance with FASB ASC Topic 712, Compensation – Nonretirement Postemployment Benefits, and the facility-related restructuring charges in accordance with the guidance of FASB ASC Topic 420, Liabilities: Exit or Disposal Cost Obligations. 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, 2011 (in thousands):

	Non-Acquisition-Related Restructuring Liabilities		Acquisition-Related Restructuring Liabilities		Total
	Employee- Related	Facilities- Related	Employee- Related	Facilities- Related	
Accrual balance at December 31, 2010	\$ 11,835	\$ 6,042	\$ 202	\$ 883	\$ 18,962
New restructuring charges	—	20	—	—	20
Revisions of estimated liabilities	(3,933)	1,381	12	141	(2,399)
Accretion	—	94	—	—	94
Cash payments for employee-related charges	(5,157)	—	(178)	—	(5,335)
Cash payments for facilities, net of sublease income	—	(1,671)	—	(237)	(1,908)
Non-cash write-offs	—	—	—	(125)	(125)
Foreign exchange impact on ending balance	486	25	6	1	518
Accrual balance at June 30, 2011	\$ 3,231	\$ 5,891	\$ 42	\$ 663	\$ 9,827

The employee-related accruals represent severance and outplacement costs to former employees that will be paid out within the next twelve months and were, therefore, included in the caption “accrued expenses and other current liabilities” in the Company’s consolidated balance sheet at June 30, 2011.

The facilities-related accruals represent estimated losses, net of subleases, on space vacated as part of the Company’s restructuring actions. The leases, and payments against the amounts accrued, will extend through 2017 unless the Company is able to negotiate earlier terminations. Of the total facilities-related accruals, \$3.6 million were included in the caption “accrued expenses and other current liabilities” and \$2.9 million were included in the caption “long-term liabilities” in the Company’s consolidated balance sheet at June 30, 2011.

17. SEGMENT INFORMATION

The Company’s evaluation of the discrete financial information that is regularly reviewed by the chief operating decision makers has determined that since January 1, 2010 the Company has one reportable segment. The following table sets forth activity for the Company’s revenues by type for the three- and six-month periods ended June 30, 2011 and 2010 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Video products revenues	\$ 65,244	\$ 66,913	\$ 132,328	\$ 125,048
Audio products revenues	63,946	67,221	134,197	137,765
Total products revenues	129,190	134,134	266,525	262,813
Services revenues:	32,154	28,026	61,142	55,303

Edgar Filing: AVID TECHNOLOGY, INC. - Form 10-Q

Total net revenues	\$	161,344	\$	162,160	\$	327,667	\$	318,116
--------------------	----	---------	----	---------	----	---------	----	---------

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

EXECUTIVE OVERVIEW

Our Company

We are a leading provider of digital media content-creation products and solutions for film, video, audio and broadcast professionals, as well as artists and creative enthusiasts. Our mission is to inspire passion, unleash creativity and enable our customers to realize their dreams in a digital world. Anyone who enjoys movies, television or music has almost certainly experienced the work of content creators who use our solutions to bring their creative visions to life. Around the globe, feature films, primetime television shows, news programs, commercials, live performances and chart-topping music hits are made using one or more of our solutions.

Corporate Strategy

We operate our business based on the following five customer-centric strategic principles:

- Drive customer success. We are committed to making each and every customer successful. Period. It's that simple.
- From enthusiasts to the enterprise. Whether performing live or telling a story to sharing a vision or broadcasting the news – we create products to support our customers at all stages.
- Fluid, dependable workflows. Reliability. Flexibility. Ease of Use. High Performance. We provide best-in-class workflows to make our customers more productive and competitive.
- Collaborative support. For the individual user, the workgroup, a community or the enterprise, we enable a collaborative environment for success.
 - Avid optimized in an open ecosystem. Our products are innovative, reliable, integrated and best-of-breed. We work in partnership with a third-party community resulting in superior interoperability.

We routinely post important information for investors on the Investors page of our website at www.avid.com. Information contained in, or connected to, our website is not incorporated in this quarterly report and should not be considered part of this quarterly report.

Financial Summary

The following table sets forth certain items from our consolidated statements of operations as a percentage of net revenues for the periods indicated:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Net revenues:				
Product revenues	80.1%	82.7%	81.3%	82.6%
Services revenues	19.9%	17.3%	18.7%	17.4%
Total net revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues				
Cost of revenues	48.9%	49.3%	48.4%	49.7%
Gross margin	51.1%	50.7%	51.6%	50.3%
Operating expenses:				
Research and development	18.9%	18.7%	18.4%	19.0%
Marketing and selling	28.5%	27.4%	27.7%	27.1%
General and administrative	9.2%	8.5%	9.2%	8.9%
Amortization of intangible assets	1.4%	1.5%	1.4%	1.7%
Restructuring and other (recoveries) costs, net	(0.0%)	2.5%	(0.7%)	1.7%
Loss on sales of assets	0.3%	—	0.2%	—
Total operating expenses	58.3%	58.6%	56.2%	58.4%
Operating loss	(7.2%)	(7.9%)	(4.6%)	(8.1%)
Interest and other income (expense), net	(0.5%)	(0.1%)	(0.3%)	(0.0%)
Loss before income taxes	(7.7%)	(8.0%)	(4.9%)	(8.1%)
Provision for (benefit from) income taxes	(0.3%)	(0.0%)	0.3%	0.2%
Net loss	(7.4%)	(8.0%)	(5.2%)	(8.3%)

Our revenues for the three-month period ended June 30, 2011 were \$161.3 million, a decrease of \$0.8 million, or 0.5%, compared to the three-month period ended June 30, 2010, with revenues from products decreasing by 3.7% and services revenues increasing by 14.7%. During the second quarter of 2011, compared to the same period in 2010, video products revenues decreased by \$1.7 million, audio products revenues decreased by \$3.3 million and services revenues increased by \$4.1 million. Our revenues for the six-month period ended June 30, 2011 were \$327.7 million, an increase of \$9.6 million, or 3.0%, compared to the six-month period ended June 30, 2010, with revenues from products increasing by 1.4% and services revenues increasing by 10.6%. During the first six months of 2011, compared to the same period in 2010, video products revenues increased by \$7.3 million and services revenues increased by \$5.8 million, while audio products revenues decreased by \$3.6 million. During the first six months of 2011, we recognized additional revenues as a result of the adoption of new revenue recognition guidance. See our critical accounting policy disclosure and updated policy for “Revenue Recognition and Allowances for Product Returns and Exchanges” found in this Item 2 under the heading “Critical Accounting Policies and Estimates” for a further discussion of the impact of adoption of this guidance. The changes in revenues are discussed in further detail in the section titled “Results of Operations” below.

Sales to international customers accounted for 56% and 58% of our consolidated net revenues for the three- and six-month periods ended June 30, 2011, respectively, compared to 55% and 57% for the same periods in 2010. International sales for the first six months of 2011, compared to the same period in 2010, increased by \$8.8 million, or

4.8%, compared to our worldwide increase in sales of 3.0%. International sales benefitted from favorable foreign currency fluctuations in the six months ended June 30, 2011. In the second quarter, we saw significant sequential decline in international revenues. This decline, primarily in Europe, was the result of economic uncertainties in certain countries, as well as internal challenges that led to a realignment of our sales team in Europe.

Net revenues derived through indirect sales channels were approximately 61% of our net revenues for both the three- and six-month periods ended June 30, 2011, respectively, compared to 65% and 67% for the same periods in 2010. These decreases in the percentage of revenues derived through indirect channels were largely driven by decreased revenues from our audio products, which have a higher percentage of sales through indirect channels than either video products or services.

Our gross margin for the three-month period ended June 30, 2011 improved to 51.1%, compared to 50.7% for the same period in 2010. This change was driven by an increase in products gross margin percentage to 51.3%, which was partially offset by a decrease in services gross margin to 52.4%. This compares to products and services gross margins of 50.9% and 53.1%, respectively, for the 2010 period. Our gross margin for the six-month period ended June 30, 2011 improved to 51.6%, compared to 50.3% for the same period in 2010. This change was driven by increases in products gross margin percentage to 52.1% and services gross margin to 51.4%. This compares to products and services gross margins that were both 50.9% for the 2010 period. The increases in products gross margin percentage for both 2011 periods were the result of decreases in products costs for the 2011 periods, primarily due to shifts in product mix. The increase in revenues for the six-month period also contributed to the increased gross margin percentage for that period. Improved utilization of services resources on increased revenues resulted in the increases in services gross margin percentage for both the three- and six-month periods.

For the three- and six-month periods ended June 30, 2011, we recorded net losses of \$11.9 million and \$17.0 million, respectively, compared to net losses of \$12.9 million and \$26.4 million for the same periods in 2010. The reduction in net loss in both periods was largely as a result of our continuing focus on the management of operating expenses. The net loss for the three-month period ended June 30, 2011 included charges of \$2.8 million for acquisition-related intangible asset amortization and a loss from the sales of assets of \$0.6 million, which were partially offset by a net benefit of \$0.2 million for revised estimates of the costs of our restructuring activities. The net loss for the three-month period ended June 30, 2010 included charges of \$3.4 million for acquisition-related intangible asset amortization, \$4.0 million for restructuring costs and \$0.1 million for acquisition-related activities. The net loss for the six-month period ended June 30, 2011 included charges of \$5.7 million for acquisition-related intangible asset amortization and a loss from the sales of assets of \$0.6 million, which were partially offset by a net benefit of \$2.4 million for revised estimates of the costs of our restructuring activities. The net loss for the six-month period ended June 30, 2010 included charges of \$7.2 million for acquisition-related intangible asset amortization; \$5.3 million for restructuring and other costs, including costs of \$3.8 million related our exit from our Tewksbury, Massachusetts headquarters lease; and \$0.8 million for acquisition-related activities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. We make estimates and assumptions in the preparation of our consolidated financial statements that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. However, actual results may differ from these estimates.

We believe that our critical accounting policies are those related to revenue recognition and allowances for product returns and exchanges; stock-based compensation; the valuation of business combinations, goodwill and intangible assets; and income tax assets and liabilities. We believe these policies are critical because they most significantly affect the portrayal of our financial condition and results of operations and involve our most difficult and subjective

estimates and judgments. Our critical accounting policies may be found in our 2010 Annual Report on Form 10-K in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” under the heading “Critical Accounting Policies and Estimates.” On January 1, 2011, we adopted Financial Accounting Standards Board, or FASB, Accounting Standards Update, or ASU, No. 2009-13, Multiple-Deliverable Revenue Arrangements, an amendment to Accounting Standards Codification, or ASC, Topic 605, Revenue Recognition, and ASU No. 2009-14, Certain Revenue Arrangements That Include Software Elements, an amendment to ASC Subtopic 985-605, Software – Revenue Recognition, or the Updates. As a result, our critical accounting policy for “Revenue Recognition and Allowances for Product Returns and Exchanges” has been updated to reflect adoption of this guidance.

ASU No. 2009-13 requires the allocation of revenue to each unit of accounting using the relative selling price of each deliverable for multiple-element arrangements. ASU No. 2009-13 also amends the accounting for multiple-element arrangements to provide guidance on how the deliverables in an arrangement should be separated and eliminates the use of the residual method by establishing a hierarchy of evidence to determine the stand-alone selling price of a deliverable based on vendor-specific objective evidence, or VSOE, third-party evidence, or TPE, and the best estimate of selling price, or ESP. If VSOE is available, it is used to determine the selling price of a deliverable. If VSOE is not available, the entity must determine whether TPE is available. If so, TPE would be used to determine the selling price. If TPE is not available, then the entity is required to determine its ESP. ASU No. 2009-14 amends ASC Subtopic 985-605 to exclude from the scope of software revenue recognition requirements sales of tangible products that contain both software and non-software components that function together to deliver the essential functionality of the tangible products. The Updates also include new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. The Updates must be adopted in the same period using the same transition method and are effective prospectively, with retrospective adoption permitted. We adopted the Updates prospectively for new and materially modified arrangements originating after December 31, 2010.

Prior to adoption of the Updates, we generally recognized revenues using the revenue recognition criteria of FASB ASC Subtopic 985-605, Software – Revenue Recognition. As a result of adoption of ASU No. 2009-14 on January 1, 2011, we will now typically recognize revenue using the criteria of FASB ASC Topic 605, Revenue Recognition. Historically, we were generally able to establish VSOE for undelivered elements in multiple-element arrangements as allowed by FASB ASC Subtopic 985-605 and, therefore, could typically recognize revenues for each element of multiple-element arrangements as the element was delivered. Under the new guidance our recognition of revenues may be recognized in an earlier period for a limited number of multiple-element arrangements for which VSOE could not be established for all undelivered elements under the previous guidance. For those arrangements, we will now determine a relative selling price for the undelivered elements through the use of TPE or ESP, and the recognition of certain revenues that would have been deferred under the previous guidance will likely be recognized at the time of delivery under the new guidance, provided all other criteria for revenue recognition are met. For the three- and six-month periods ended June 30, 2011, adoption of the Updates resulted in an increase in total revenues of approximately \$1.8 million and \$6.3 million, respectively. These increases were primarily the result of sales arrangements now accounted for under the guidance of ASU No. 2009-13 that contained undelivered elements for which VSOE of fair value could not be established as of June 30, 2011. We cannot reasonably estimate the effect of the adoption of these standards on future financial periods as the impact will vary depending on the nature and volume of new or materially modified arrangements in any given period.

Effective January 1, 2011, we adopted the following policy for “Revenue Recognition.”

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is probable. However, determining whether and when some of these criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenues we report. For example, we often receive multiple purchase orders or contracts from a single customer or a group of related parties that are evaluated to determine if they are, in effect, parts of a single arrangement. If they are determined to be parts of a single arrangement, revenues are recorded as if a single multiple-element arrangement exists.

Generally, the products we sell do not require significant production, modification or customization of software. Installation of the products is generally routine, consists of implementation and configuration and does not have to be performed by Avid. However, certain transactions for our video products, typically complex solution sales that include a significant number of products and may involve multiple customer sites, require us to perform an installation effort that we may deem to be complex, non-routine and essential to the functionality of the products delivered. In

these situations, we do not recognize revenues for either the products shipped or services performed until the essential services have been completed. In addition, if these orders include a customer acceptance provision, no revenues are recognized until the customer's formal acceptance of the products and services has been received.

In the first quarter of fiscal 2011, we adopted ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements, an amendment to ASC Topic 605, Revenue Recognition, and ASU No. 2009-14, Certain Revenue Arrangements That Include Software Elements, an amendment to ASC Subtopic 985-605, Software – Revenue Recognition. ASU No. 2009-13 requires the allocation of revenue, based on the relative selling price of each deliverable, to each unit of accounting for multiple-element arrangements. It also changes the level of evidence of standalone selling price required to separate deliverables by allowing a best estimate of the standalone selling price of deliverables when more objective evidence of fair value, such as vendor-specific objective evidence or third-party evidence, is not available. ASU No. 2009-14 amends ASC Subtopic 985-605 to exclude sales of tangible products containing both software and non-software components that function together to deliver the tangible products essential functionality from the scope of revenue recognition requirements for software arrangements. We adopted this accounting guidance prospectively and applied its provisions to arrangements entered into or materially modified after December 31, 2010.

We recognize revenue from the sale of non-software products, including software bundled with hardware that is essential to the functionality of the hardware, under the general revenue recognition accounting guidance of ASC Topic 605, Revenue Recognition and ASC Subtopic 605-25 Revenue Recognition – Multiple-Element Arrangements. We recognize revenue in accordance with ASC Subtopic 985-605, Software – Revenue Recognition for the following types of sales transactions: (i) standalone sales of software products and related upgrades and (ii) sales of software elements bundled with non-software elements, when the software elements are not essential to the functionality of the non-software elements.

For 2011 and future periods, pursuant to the guidance of ASU No. 2009-13, when a sales arrangement contains multiple elements, such as non-software products, software products, customer support services, and/or professional services, we allocate revenue to each element based on the aforementioned selling price hierarchy. Revenue is allocated to the non-software deliverables as a group and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is then recognized using the guidance for recognizing software revenue, as amended.

The process for determining our ESP for deliverables without VSOE or TPE involves management's judgment. We generally determine ESP based on the following.

- We utilize a pricing model for our products to capture the right value given the product and market context. The model considers such factors as: (i) competitive reference prices for products that are similar but not functionally equivalent, (ii) differential value based on specific feature sets, (iii) geographic regions where the products are sold, (iv) customer price sensitivity, (v) price-cost-volume tradeoffs, and (vi) volume based pricing. Management approval ensures that all of our selling prices are consistent and within an acceptable range for use with the relative selling price method.
- While the pricing model currently in use captures all critical variables, unforeseen changes due to external market forces may result in the revision of some of our inputs. These modifications may result in consideration allocation in future periods that differs from the one presently in use. Absent a significant change in the pricing inputs, future changes in the pricing model are not expected to materially impact our allocation of arrangement consideration.

From time to time, we offer certain customers free upgrades or specified future products or enhancements. For software products, if elements are undelivered at the time of product shipment and provided that we have vendor-specific objective evidence of fair value for the undelivered elements, we defer the fair value of the specified upgrade, product or enhancement and recognize those revenues only upon later delivery or at the time at which the remaining contractual terms relating to the elements have been satisfied. If we cannot establish VSOE for each

undelivered element, all revenue is deferred until all elements are delivered, we establish VSOE or the remaining contractual terms relating to the undelivered elements have been satisfied. For non-software products, if elements are undelivered at the time of product shipment, we defer the relative selling price of the specified upgrade, product or enhancement and recognize those revenues only upon later delivery or at the time at which the remaining contractual terms relating to the elements have been satisfied.

Approximately 61% of our revenues for the first half of 2011 were derived from indirect sales channels, including authorized resellers and distributors. Certain channel partners are offered limited rights of return, stock rotation and price protection. For these partners, we record a provision for estimated returns and other allowances as a reduction of revenues in the same period that related revenues are recorded in accordance with ASC Subtopic 605-15, Revenue Recognition – Products. Management estimates must be made and used in connection with establishing and maintaining a sales allowance for expected returns and other credits. In making these estimates, we analyze historical returns and credits and the amounts of products held by major resellers and consider the impact of new product introductions, changes in customer demand, current economic conditions and other known factors. While we believe we can make reliable estimates regarding these matters, these estimates are inherently subjective. The amount and timing of our revenues for any period may be affected if actual product returns or other reseller credits prove to be materially different from our estimates.

A portion of our revenues from sales of consumer video-editing and audio products is derived from transactions with channel partners who have unlimited return rights and from whom payment is contingent upon the product being sold through to their customers. Accordingly, revenues for these channel partners are recognized when the products are sold through to the customer instead of being recognized at the time products are shipped to the channel partners.

At the time of a sales transaction, we make an assessment of the collectability of the amount due from the customer. Revenues are recognized only if it is probable that collection will occur in a timely manner. In making this assessment, we consider customer credit-worthiness and historical payment experience. If it is determined from the outset of the arrangement that collection is not probable based on our credit review process, revenues are recognized on a cash-collected basis to the extent that the other criteria of ASC Topic 605, ASC Subtopic 985-605 and Securities and Exchange Commission Staff Accounting Bulletin No. 104 are satisfied. At the outset of the arrangement, we assess whether the fee associated with the order is fixed or determinable and free of contingencies or significant uncertainties. In assessing whether the fee is fixed or determinable, we consider the payment terms of the transaction, our collection experience in similar transactions without making concessions, and our involvement, if any, in third-party financing transactions, among other factors. If the fee is not fixed or determinable, revenues are recognized only as payments become due from the customer, provided that all other revenue recognition criteria are met. If a significant portion of the fee is due after our normal payment terms, which are generally 30 days, but can be up to 90 days, after the invoice date, we evaluate whether we have sufficient history of successfully collecting past transactions with similar terms. If that collection history is successful, revenues are recognized upon delivery of the products, assuming all other revenue recognition criteria are satisfied. If we were to change any of these assumptions and judgments, it could cause a material increase or decrease in the amount of revenue reported in a particular period.

RESULTS OF OPERATIONS

NET REVENUES

Our net revenues are derived mainly from sales of computer-based digital, nonlinear media-editing and finishing systems and related peripherals, including shared-storage systems, software licenses, and related professional services and maintenance contracts.

Net Revenues for the Three Months Ended June 30, 2011 and 2010
(dollars in thousands)

	2011		Change		2010
	Net Revenues		\$	%	Net Revenues
Video products revenues	\$ 65,244	\$	(1,669)	(2.5%)	\$ 66,913

Edgar Filing: AVID TECHNOLOGY, INC. - Form 10-Q

Audio products revenues	63,946	(3,275) (4.9%)	67,221
Total products revenues	129,190	(4,944) (3.7%)	134,134
Services revenues	32,154	4,128 14.7%	28,026
Total net revenues	\$ 161,344	\$ (816) (0.5%)	\$ 162,160

Net Revenues for the Six Months Ended June 30, 2011 and 2010
(dollars in thousands)

	2011		Change		2010	
	Net Revenues		\$	%	Net Revenues	
Video products revenues	\$	132,328	\$	7,280 5.8%	\$	125,048
Audio products revenues		134,197		(3,568) (2.6%)		137,765
Total products revenues		266,525		3,712 1.4%		262,813
Services revenues		61,142		5,839 10.6%		55,303
Total net revenues	\$	327,667	\$	9,551 3.0%	\$	318,116

The \$0.8 million decrease in revenues for the three-month period ended June 30, 2011 period, which was net of an increase of approximately \$4.9 million for the favorable impact of currency exchange rates, consisted of a decrease of \$3.3 million in our audio revenues and a \$1.7 million decrease in our video products revenues, partially offset by a \$4.1 million increase in our services revenues. The \$9.6 million increase in revenues for the six-month period ended June 30, 2011 period included a \$7.3 million increase in our video products revenues and a \$5.8 million increase in our services revenues, partially offset by a \$3.6 million decrease in our audio products revenues. During the three- and six-month periods ended June 30, 2011, respectively, we recognized \$1.8 million and \$6.3 million in products revenues as a result of the adoption of new revenue recognition guidance. See our critical accounting policy disclosure and updated policy for “Revenue Recognition and Allowances for Product Returns and Exchanges” found previously in this Item 2 under the heading “Critical Accounting Policies and Estimates” for a further discussion of the impact of adoption of this guidance.

Video Products Revenues

The 2.5% decrease in our video products revenues for the three months ended June 30, 2011 was primarily the result of decreased revenues from our on-air graphics and news automation product offerings. This decrease was partially offset by strong sales from our shared storage systems and our recently introduced Avid Studio consumer video editor. We introduced the Avid Studio product line in March 2011 and a new version of our Pinnacle Studio product line in February 2011 to strengthen our consumer video offerings. Video products revenues decreased in the Asia-Pacific region, decreased slightly in the Americas and increased slightly in Europe during the second quarter of 2011, compared to the same period in 2010.

The 5.8% increase in our video products revenues for the six months ended June 30, 2011 was the result of growth across most of our video product lines, compared to the same period in 2010. Video products revenues increased in all geographic regions during the first six months of 2011, compared to the same period in 2010.

Audio Products Revenues

The 4.9% and 2.6% decreases in revenues from our audio products for the three and six months ended June 30, 2011, respectively, were largely the result of decreased revenues from our higher-end audio systems. This decrease was due to slower than anticipated market adoption of some of our Pro Tools HD hardware products launched in the fourth quarter of 2010. These decreases were partially offset by increases in revenues from our audio control surfaces and speaker product lines in both periods. We also experienced revenue increases related to our Pro Tools software product also introduced in the fourth quarter of 2010. Revenues for the first half of last year also benefited from successful upgrade promotions, not present in the 2011 period, for high-end professional audio products. Audio products revenues increased slightly in the Americas and decreased in Europe during both the second quarter and first

six months of 2011, compared to the same periods in 2010, while Asia-Pacific region revenues were relatively unchanged for both periods.

Services Revenues

Services revenues are derived primarily from maintenance contracts, as well as professional and integration services and training. The 14.7% and 10.6% increases in services revenues for both the three- and six-month periods ended June 30, 2011, respectively, were the result of increased maintenance revenues, driven by new maintenance contracts and improved renewal rates for existing contracts, as well as increased professional services revenues. Services revenues increased in the Americas and Europe during both the second quarter and first six months of 2011, while Asia-Pacific revenues were relatively unchanged for both periods.

COST OF REVENUES, GROSS PROFIT AND GROSS MARGIN PERCENTAGE

Cost of revenues consists primarily of costs associated with:

- the procurement of components;
 - the assembly, testing and distribution of finished products;
 - warehousing;
 - customer support costs related to maintenance contract revenues and other services;
 - providing professional services and training;
 - royalties for third-party software and hardware included in our products; and
- amortization of technology.

The amortization of technology, which represents the amortization of developed technology assets acquired in business combinations, is described further in the “Amortization of Intangible Assets” section below.

Costs of Revenues for the Three Months Ended June 30, 2011 and 2010
(dollars in thousands)

	2011 Costs		Change \$	%	2010 Costs
Cost of products revenues	\$ 62,964	\$	(2,873)	(4.4%)	\$ 65,837
Cost of services revenues	15,312		2,173	16.5%	13,139
Amortization of intangible assets	685		(261)	(27.6%)	946
Total cost of revenues	\$ 78,961	\$	(961)	(1.2%)	\$ 79,922
Gross profit	\$ 82,383	\$	145	0.2%	\$ 82,238

Costs of Revenues for the Six Months Ended June 30, 2011 and 2010
(dollars in thousands)

	2011 Costs		Change \$	%	2010 Costs
Cost of products revenues	\$ 127,615	\$	(1,491)	(1.2%)	\$ 129,106
Cost of services revenues	29,699		2,520	9.3%	27,179
Amortization of intangible assets	1,351		(561)	(29.3%)	1,912
Total cost of revenues	\$ 158,665	\$	468	0.3%	\$ 158,197
Gross profit	\$ 169,002	\$	9,083	5.7%	\$ 159,919

Gross Margin Percentage

Gross margin percentage fluctuates based on factors such as the mix of products sold, the cost and proportion of third-party hardware and software included in the systems sold, the offering of product upgrades, price discounts and other sales-promotion programs, the distribution channels through which products are sold, the timing of new product introductions, sales of aftermarket hardware products such as disk drives, and currency exchange-rate fluctuations.

	Gross Margin %					
	Three Months Ended June 30, 2011 and 2010			Six Months Ended June 30, 2011 and 2010		
	2011	Increase	2010	2011	Increase	2010
	Gross	(Decrease)	Gross	Gross	In Gross	Gross
	Margin %	In Gross	Margin %	Margin %	Margin %	Margin %
		Margin %				
Products	51.3	% 0.4	% 50.9	% 52.1	% 1.2	% 50.9
Services	52.4	% (0.7)	% 53.1	% 51.4	% 0.6	% 50.9
Total	51.1	% 0.3	% 50.7	% 51.6	% 1.3	% 50.3

For the three- and six-month periods ended June 30, 2011, decreased products costs in both periods, as well as increased revenues in the six-month period, resulted in improved products gross margin percentage compared to the same periods in 2010. Increased revenues from higher-margin software products such as Avid Studio, Media Composer software and Pro Tools software were a significant factor in our improved margins for both periods. The gross margin percentages for both periods were negatively impacted by certain unusual charges recorded in the second quarter of 2011, including a charge related to a change in our third-party logistics provider in North America.

The decrease in services gross margin percentage for the three-month period was the largely result of a loss provision related to a professional services contract that was assumed as part of a 2010 acquisition. Improved utilization of services resources, partially offset by the loss provision recorded in the three-month period, resulted in an increase in services gross margin percentage for the six-month period ended June 30, 2011, compared to the same period in 2010.

OPERATING EXPENSES AND OPERATING LOSS

Operating Expenses and Operating Loss for the Three Months Ended June 30, 2011 and 2010 (dollars in thousands)

	2011	Change	2010
	Expenses	\$	Expenses
		%	
Research and development expenses	\$ 30,453	\$ 185 0.6%	\$ 30,268
Marketing and selling expenses	46,052	1,578 3.5%	44,474
General and administrative expenses	14,920	1,041 7.5%	13,879
Amortization of intangible assets	2,161	(256) (10.6%)	2,417
Restructuring and other (recoveries) costs, net	(163)	(4,170) (104.1%)	4,007
Loss on sales of assets	597	597 n/m	—
Total operating expenses	\$ 94,020	\$ (1,025) (1.1%)	\$ 95,045
Operating loss	\$ (11,637)	\$ (1,170) (9.1%)	\$ (12,807)

Operating Expenses and Operating Loss for the Six Months Ended June 30, 2011 and 2010 (dollars in thousands)

Edgar Filing: AVID TECHNOLOGY, INC. - Form 10-Q

	2011		Change		2010		
	Expenses		\$	%	Expenses		
Research and development expenses	\$	60,426	\$	7	0.0%	\$	60,419
Marketing and selling expenses		90,862		4,642	5.4%		86,220
General and administrative expenses		30,218		1,737	6.1%		28,481
Amortization of intangible assets		4,306		(968)	(18.4%)		5,274
Restructuring and other (recoveries) costs, net		(2,379)		(7,726)	(144.5%)		5,347
Loss on sales of assets		597		597	n/m		—
Total operating expenses	\$	184,030	\$	(1,711)	(0.9%)	\$	185,741
Operating loss	\$	(15,028)	\$	(10,794)	(41.8%)	\$	(25,822)

Research and Development

Research and development, or R&D, expenses include costs associated with the development of new products and the enhancement of existing products, and consist primarily of employee salaries and benefits, facilities costs, depreciation, costs for consulting and temporary employees, and prototype and other development expenses.

Year-Over-Year Change in Research and Development Expenses for the Three and Six Months Ended June 30, 2011
(dollars in thousands)

	Three Months Ended June 30, 2011 (Decrease) Increase From 2010 Period		Six Months Ended June 30, 2011 (Decrease) Increase From 2010 Period	
	\$	%	\$	%
Personnel-related expenses	\$ (1,050)	(5.3%)	\$ (3,258)	(8.1%)
Consulting and outside services expenses	549	14.5%	1,505	21.6%
Computer hardware and supplies expenses	516	59.6%	1,082	75.9%
Facilities and information technology infrastructure costs	(66)	(1.4%)	789	8.7%
Other expenses	236	25.7%	(111)	(4.3%)
Total research and development expenses increase	\$ 185	0.6%	\$ 7	0.0%

The decreases in personnel-related expenses and the partially offsetting increase in consulting and outside services costs for both 2011 periods primarily resulted from our increased use of offshore third-party development resources. The increases in computer hardware and supplies expenses for both periods and the increase in facilities and information technology infrastructure costs expenses for the six-month period were related to new product development initiatives started in 2010 and the first quarter of 2011. R&D expenses as a percentage of revenues were 18.9% and 18.4% for the three- and six-month periods ended June 30, 2011, respectively, compared to 18.7% and 19.0% in the same 2010 periods. These changes were primarily the result of the decrease and increase in revenues for the three- and six-month periods, respectively, on relatively unchanged R&D expenses.

Marketing and Selling

Marketing and selling expenses consist primarily of employee salaries and benefits for selling, marketing and pre-sales customer support personnel; commissions; travel expenses; advertising and promotional expenses; and facilities costs.

Year-Over-Year Change in Marketing and Selling Expenses for the Three and Six Months Ended June 30, 2011
(dollars in thousands)

	Three Months Ended June 30, 2011 Increase (Decrease) From 2010 Period		Six Months Ended June 30, 2011 Increase (Decrease) From 2010 Period	
	\$	%	\$	%
Consulting and outside services	\$ 2,051	73.0%	\$ 2,428	38.4%
Tradeshaw and other promotional expenses	586	16.9%	2,288	42.5%
Personnel related expenses	993	2.5%	841	1.0%
Bad debt expenses	155	96.7%	468	n/m

Edgar Filing: AVID TECHNOLOGY, INC. - Form 10-Q

Facilities and information technology infrastructure costs	(845)	(9.6%)		(881)	(5.2%)
Foreign exchange losses (gains)	(634)	n/m		(256)	(89.8%)
Other expenses	(728)	(6.7%)		(246)	(1.1%)
Total marketing and selling expenses increase	\$	1,578	3.5%	\$	4,642 5.4%

The increased tradeshow and other promotional expenses and higher consulting and outside services costs for both 2011 periods resulted from our increased investment in marketing activities designed to capture incremental revenues, while the increase in bad debt expenses was largely the result of allowances required for write-offs recorded during the first six months of 2011. During the six months ended June 30, 2011, net foreign exchange gains (specifically, foreign exchange transaction and remeasurement gains and losses on net monetary assets denominated in foreign currencies, offset by non-designated foreign currency hedging gains and losses), which are included in marketing and selling expenses, were \$0.6 million, compared to gains of \$0.3 million in the 2010 period, resulting in a \$0.3 million change from the offset to expense recorded during the first six months of 2010. The decreases in facilities and information technology infrastructure costs for both 2011 periods were largely the result of our continued efforts to reduce overhead. Marketing and selling expenses as a percentage of revenues increased to 28.5% and 27.7% for the three- and six-month periods ended June 30, 2011, respectively, from 27.4% and 27.1% for the same 2010 periods, primarily as a result of the increased marketing investments in the 2011 periods as described above.

General and Administrative

General and administrative expenses consist primarily of employee salaries and benefits for administrative, executive, finance and legal personnel; audit, legal and strategic consulting fees; and insurance, information systems and facilities costs. Information systems and facilities costs reported within general and administrative expenses are net of allocations to other expenses categories.

Year-Over-Year Change in General and Administrative Expenses for the Three and Six Months Ended June 30, 2011

	(dollars in thousands)					
	Three Months Ended			Six Months Ended		
	June 30, 2011 Increase (Decrease) From 2010 Period			June 30, 2011 Increase (Decrease) From 2010 Period		
	\$	%	\$	%	\$	%
Personnel-related expenses	\$	960	12.4%	\$	1,676	10.9%
Consulting and outside services expenses		365	85.4%		802	91.4%
Legal settlement expenses		192	n/m		192	n/m
Mergers and acquisitions costs		118	143.2%		(568)	(74.0%)
Facilities and information technology infrastructure costs		(305)	(9.9%)		(146)	(2.6%)
Other expenses		(289)	(11.4%)		(219)	(3.8%)
Total general and administrative expenses increase	\$	1,041	7.5%	\$	1,737	6.1%

The higher personnel-related expenses for both 2011 periods were largely the result of increased stock-based compensation expenses. The increased consulting and outside services costs were primarily the result of recruiting costs related to our business realignment initiated in the fourth quarter of 2010, while the increase in legal settlement expenses for the 2011 periods was the result of an accrual for a settlement agreement reached during the second quarter of 2011. The decrease in mergers and acquisitions costs for the six months ended June 30, 2011, compared to the 2010 period, was the result of acquisition-related costs incurred in the 2010 period that were not present in the 2011 period. Conversely, during the second quarter of 2011, we incurred acquisition-related costs of \$0.2 million compared to costs of \$0.1 million recorded in the 2010 period. The lower facilities and information technology infrastructure costs for both 2011 periods were primarily the result of our continued efforts to reduce overhead. General and administrative expenses as a percentage of revenues increased to 9.2% for both the three- and six-month periods ended June 30, 2011 from 8.5% and 8.9%, respectively, for the 2010 periods, primarily as a result of the increased expenses in the 2011 periods. For the six-month period, the effect of the increase in revenues partially offset

the effect of the increase in expenses.

Amortization of Intangible Assets

Intangible assets result from acquisitions and include developed technology, customer-related intangibles, trade names and other identifiable intangible assets with finite lives. With the exception of developed technology, these intangible assets are amortized using the straight-line method. Developed technology is amortized over the greater of (1) the amount calculated using the ratio of current quarter revenues to the total of current quarter and anticipated future revenues over the estimated useful life of the developed technology, and (2) the straight-line method over each developed technology's remaining useful life. Amortization of developed technology is recorded within cost of revenues. Amortization of customer-related intangibles, trade names and other identifiable intangible assets is recorded within operating expenses.

Year-Over-Year Change in Amortization of Intangible Assets for the Three and Six Months Ended June 30, 2011

	(dollars in thousands)			
	Three Months Ended June 30, 2011 Decrease From 2010 Period		Six Months Ended June 30, 2011 Decrease From 2010 Period	
	\$	%	\$	%
Amortization of intangible assets recorded in cost of revenues	\$	(261) (27.6%)	\$	(561) (29.3%)
Amortization of intangible assets recorded in operating expenses		(256) (10.6%)		(968) (18.4%)
Total amortization of intangible assets decrease	\$	(517) (15.4%)	\$	(1,529) (21.3%)

The decreases in amortization of intangible assets recorded in cost of revenues during the three- and six-month periods ended June 30, 2011, compared to the same 2010 periods, were primarily the result of the completion during 2010 of the amortization of developed technologies related to our 2006 acquisition of Sibelius. The decreases in amortization recorded in operating expenses for the same periods were primarily the result the completion during 2010 of the amortization of intangible assets related to our past acquisitions of M-Audio, Pinnacle and MaxT. The decreases for the six-month period were partially offset by higher amortization in the 2011 period related to our April 2010 acquisition of Euphonix.

Restructuring and Other (Recoveries) Costs, Net

2010 Restructuring Plans

In December 2010, we initiated a worldwide restructuring plan, or the 2010 Plan, designed to better align financial and human resources in accordance with its strategic plans for the upcoming fiscal year. In connection with the restructuring, we eliminated positions that were in lower growth geographies and markets and reinvested in more strategic areas with greater opportunity for growth. The 2010 Plan also called for streamlining internal operations while making key investments in organizational efficiencies and to close portions of certain office facilities. During the fourth quarter of 2010, we recorded total restructuring charges of \$13.1 million related to severance costs for the elimination of 145 positions and the partial closure of a facility. During the first six months of 2011, we revised our previously recorded estimates of severance costs and recorded a restructuring benefit of \$3.9 million. The revisions primarily resulted from the final severance negotiations for certain European employees, as well as the transferring of certain employees into alternative positions at Avid. To date, total restructuring charges of approximately \$9 million have been recorded under the 2010 Plan. We expect to record additional restructuring charges of approximately \$1 million and complete the actions under the 2010 Plan during 2011.

In the second quarter of 2010, we also initiated acquisition-related restructuring actions that resulted in restructuring charges of \$1.8 million for the severance costs for 24 former Euphonix employees and the closure of three Euphonix facilities. During the first six months of 2011, we recorded additional restructuring charges of approximately \$0.2 million primarily for revised estimates for the write-off of fixed assets related to the facilities closures.

2008 Restructuring Plan

In October 2008, we initiated a company-wide restructuring plan, or the 2008 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 facilities worldwide. The 2008 Plan was intended to improve operational efficiencies and bring costs in line with expected revenues. In connection with the 2008 Plan, during the fourth quarter of 2008 we recorded restructuring charges of \$20.4 million related to employee termination costs, \$0.5 million for the closure of three small facilities and \$1.9 million in cost of revenues related to the write-down of inventory for a divested product line.

During 2009 and 2010, we recorded additional restructuring charges of \$30.0 million related to the 2008 Plan, including new restructuring charges of \$14.8 million related to employee termination costs for approximately 320 additional employees; \$12.3 million related to the closure of all or part of fifteen facilities; \$0.8 million, recorded in cost of revenues, related to a write-down of inventory; and \$2.1 million for revisions to previous estimates. The charges resulting from the reduction in force of 320 additional employees were recorded in the third and fourth quarters of 2009 and were primarily the result of the expanded use of offshore development resources for R&D projects and our desire to better align our 2010 cost structure with revenue expectations.

During the first six months of 2011, we recorded restructuring charges of \$1.4 million related to the 2008 Plan for revised estimates of the costs associated with previously closed facilities.

No additional actions are expected to take place under the 2008 Plan. To date, restructuring charges of approximately \$54 million have been recorded under the 2008 Plan.

Restructuring and Other (Recoveries) Costs Summary

For the three- and six-month periods ended June 30, 2010, also included in our results of operations under the caption “restructuring and other (recoveries) costs, net” were costs of \$3.8 million related to the exit from our Tewksbury, Massachusetts headquarters lease. The following table summarizes our restructuring and other (recoveries) costs for the three and six months ended June 30, 2011 and 2010 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Non-acquisition-related restructuring charges	\$ (163)	\$ 213	\$ (2,532)	\$ 828
Acquisition-related restructuring charges	—	—	153	725
Tewksbury facility exit costs	—	3,794	—	3,794
Restructuring and other (recoveries) costs, net	\$ (163)	\$ 4,007	\$ (2,379)	\$ 5,347

Loss on Sales of Assets

During the second quarter of 2011, we recorded a loss on the sales of assets of \$0.6 million resulting from the write-off of receivables related to the sale of inventory related to our 2008 divestiture of the PCTV product line.

INTEREST AND OTHER INCOME (EXPENSE), NET

Interest and other income (expense), net, generally consists of interest income and interest expense.

Interest and Other Income (Expense) for the Three Months Ended June 30, 2011 and 2010
(dollars in thousands)

	2011		Change		2010	
	Income (Expense)		\$	%	Income (Expense)	
Interest income	\$ 9	\$	3	50.0%	\$ 6	
Interest expense	(717)		(465)	184.5%	(252)	
Other income (expense), net	(60)		(204)	(141.7%)	144	
Total interest and other income (expense), net	\$ (768)	\$	(666)	(652.9%)	\$ (102)	

Interest and Other Income (Expense) for the Six Months Ended June 30, 2011 and 2010
(dollars in thousands)

	2011 Income (Expense)		Change \$	%	2010 Income (Expense)
Interest income	\$ 68	\$	(73)	(51.8%)	\$ 141
Interest expense	(1,139)		(678)	147.1%	(461)
Other income (expense), net	3		(215)	(98.6%)	218
Total interest and other income (expense), net	\$ (1,068)	\$	(966)	(947.1%)	\$ (102)

The changes in total interest and other income (expense), net for the three- and six-month periods ended June 30, 2011, compared to the same 2010 periods, were primarily the result of increased interest expense related to our revolving credit facilities. We expect our interest expense to increase for the remainder of 2011, compared to 2010, as a result of the costs of our credit facilities. The magnitude of the increase will largely depend on the level of our borrowings.

PROVISION FOR (BENEFIT FROM) INCOME TAXES, NET

Benefit from Income Taxes, Net for the Three Months Ended June 30, 2011 and 2010
(dollars in thousands)

	2011 Benefit		Change \$	%	2010 Benefit
Benefit from income taxes, net	\$ (543)	\$	(540)	(18000.0%)	\$ (3)

Provision for Income Taxes, Net for the Six Months Ended June 30, 2011 and 2010
(dollars in thousands)

	2011 Provision		Change \$	%	2010 Provision
Provision for income taxes, net	\$ 883	\$	419	90.3%	\$ 464

Our effective tax rate, which represents our tax provision as a percentage of loss before tax, was 5% and 2%, respectively, for the six months ended June 30, 2011 and 2010. Our provision for income taxes and effective tax rate both increased for the 2011 period, compared to the 2010 period. These increases were primarily the result of favorable discrete tax benefits of \$0.8 million from the release of tax reserves and a valuation allowance during the six-month period ended June 30, 2010, compared to a discrete tax charge of \$0.6 million related to a tax reserve established for a position taken in a prior period during the six-month period ended June 30, 2011. In addition, during the six-month period ended June 30, 2011, there were lower foreign profits compared to the same period in 2010. No benefit is provided for losses generated in the United States due to the full valuation allowance on our U.S. deferred tax assets.

The tax rate in each period is affected by net changes in the valuation allowance against our deferred tax assets. Excluding the impact of our valuation allowance, our effective tax rates would have been 28% and 30%, respectively, for the six-month periods ended June 30, 2011 and 2010. These rates differ from the Federal statutory rate of 35% primarily due to the mix of income and losses in foreign jurisdictions, which have tax rates that differ from the

statutory rate.

We have significant net deferred tax assets as a result of tax credits and operating loss carryforwards. The realization of the net deferred tax assets is dependent upon the generation of sufficient future taxable income in the applicable tax jurisdictions. We regularly review our deferred tax assets for recoverability with consideration for such factors as historical losses, projected future taxable income and the expected timing of the reversals of existing temporary differences. FASB ASC Topic 740, Income Taxes, requires us to record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on our level of deferred tax assets at June 30, 2011 and our level of historical U.S. losses, we have determined that the uncertainty regarding the realization of these assets is sufficient to warrant the need for a full valuation allowance against our U.S. net deferred tax assets. We have also determined that a valuation allowance is warranted on a portion of our foreign deferred tax assets.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Sources of Cash

We have generally funded our operations in recent years through the use of existing cash balances, which we have supplemented in recent months with borrowings under our credit facilities. At June 30, 2011 and December 31, 2010, our principal sources of liquidity included cash and cash equivalents totaling \$37.6 million and \$42.8 million, respectively, and available borrowings under our credit facilities as discussed below.

On October 1, 2010, we entered into a Credit Agreement with Wells Fargo Capital Finance LLC, or Wells Fargo, which established two revolving credit facilities with combined maximum borrowings of up to \$60 million. The actual amount of credit available to us will vary depending upon changes in the level of the respective accounts receivable and inventory, and is subject to other terms and conditions which are more specifically described in the Credit Agreement. The credit facilities have a maturity date of October 1, 2014, at which time Wells Fargo's commitments to provide additional credit shall be terminated and all outstanding borrowings must be repaid. Prior to the maturity of the credit facilities, any amounts borrowed may be repaid and, subject to the terms and conditions of the Credit Agreement, reborrowed in whole or in part without penalty.

The Credit Agreement contains customary representations and warranties, covenants, mandatory prepayments, and events of default under which our payment obligations may be accelerated, including guarantees and liens on substantially all of our assets to secure their obligations under the Credit Agreement. The Credit Agreement requires that Avid Technology, Inc., our parent company, maintain liquidity (comprised of unused availability under its portion of the credit facilities plus certain unrestricted cash and cash equivalents) of \$10 million, at least \$5 million of which must be from unused availability under its portion of the credit facilities, and our subsidiary, Avid Technology International B.V., or Avid Europe, is required to maintain liquidity (comprised of unused availability under the Avid Europe portion of the credit facilities plus certain unrestricted cash and cash equivalents) of \$5 million, at least \$2.5 million of which must be from unused availability under the Avid Europe portion of the credit facilities. Interest accrues on outstanding borrowings under the credit facilities at a rate of either LIBOR plus 2.75% or a base rate (as defined in the Credit Agreement) plus 1.75%, at the option of Avid Technology or Avid Europe, as applicable. We must also pay Wells Fargo a monthly unused line fee at a rate of 0.625% per annum.

During the first six months of 2011, our U.S. operations borrowed funds under our revolving credit facilities to meet short-term cash requirements, of which \$13.0 million was outstanding at June 30, 2011 and the date of this report. The weighted-average interest rate on the outstanding balance at June 30, 2011 was 5.00%. At June 30, 2011, we were in compliance with all debt agreement covenants and had additional available borrowings under the credit facilities of approximately \$35.5 million after taking into consideration the liquidity covenant. We expect to borrow against the line of credit above the current outstanding borrowings to cover cash requirements during the remainder of the year as may be required to meet the short-term funding needs of the business.

Our cash requirements vary depending on factors such as the growth of our business, changes in working capital, capital expenditures, acquisitions of businesses or technologies and obligations under restructuring programs. We believe that we have sufficient cash, cash equivalents, funds generated from operations and funds available under the credit facilities to meet our operational and strategic objectives for at least the next twelve months.

The following table summarizes our cash flows for the six months ended June 30, 2011 and 2010 (in thousands):

	Six Months Ended June 30,	
	2011	2010
Net cash used in operating activities	\$ (13,686)	\$ (8,901)
Net cash used in investing activities	(6,652)	(32,095)

Edgar Filing: AVID TECHNOLOGY, INC. - Form 10-Q

Net cash provided by (used in) financing activities	14,349	(322)
Effect of foreign currency exchange rates on cash and cash equivalents	764	(3,406)
Net decrease in cash and cash equivalents	\$ (5,225)	\$ (44,724)

38

Cash Flows from Operating Activities

For the six months ended June 30, 2011, net cash used in operating activities primarily reflected changes in working capital items, in particular an increase in inventories and a decrease in accrued liabilities, partially offset by an increase in deferred revenues. These changes were also partially offset by the positive impact of our net loss after adjustment for non-cash items, in particular depreciation and amortization, stock-based compensation expense and unrealized foreign currency transaction losses. For the six months ended June 30, 2010, net cash used in operating activities primarily reflected changes in working capital items, in particular a decrease in accrued liabilities and an increase in accounts receivable, as well as the negative impact of our net loss after adjustment for non-cash items, partially offset by increases in accounts payable and deferred revenues.

Accounts receivable decreased by \$2.8 million to \$98.4 million at June 30, 2011 from \$101.2 million at December 31, 2010. These balances are net of allowances for sales returns, bad debts and customer rebates, all of which we estimate and record based primarily on historical experience. Days sales outstanding in accounts receivable, or DSO, was 55 days at June 30, 2011, compared to 47 days at December 31, 2010. Our accounts receivable aging at June 30, 2011 is within historical ranges, and we believe the increase in our DSO is the result of the timing of revenue recognition and customer receipts, as well as the impact of foreign currency translation on our accounts receivables balances.

Inventories increased by \$21.4 million to \$129.8 million at June 30, 2011 from \$108.4 million at December 31, 2010. These balances included stockroom, spares and demonstration equipment inventories at various locations, as well as inventory at customer sites related to shipments for which we had not yet recognized revenue. The increase in inventories at June 30, 2011 was the result of increased stocking levels related to lower than expected revenues, as well as a buildup of inventory related to new product introductions. During parts of 2010, we experienced certain supply chain shortages that impacted our ability to meet the demand for certain of our products. At our current inventory levels, we believe we have improved our ability to meet product demand for the remainder of 2011. We also expect our inventory levels to decrease modestly during the second half of 2011 as we work to better optimize our supply chain. We review all inventory balances regularly for excess quantities or potential obsolescence and make appropriate adjustments as needed to write down the inventories to reflect their estimated realizable value. We source inventory products and components pursuant to purchase orders placed from time to time.

Accounts payable decreased by \$2.6 million to \$44.8 million at June 30, 2011 from \$47.3 million at December 31, 2010. This decrease is primarily the result of the timing of cash payments to our vendors.

Accrued liabilities, including accrued payroll and benefits, decreased by \$14.7 million to \$67.4 million at June 30, 2011 from \$82.1 million at December 31, 2010. This decrease in accrued liabilities was largely the result of decreased accruals for payroll and other compensation, primarily due to the payment of 2010 bonuses accrued at December 31, 2010, and a decrease in restructuring-related obligations incurred in connection with restructuring activities during 2011 and prior periods. At June 30, 2011, we had restructuring accruals of \$3.3 million and \$6.6 million related to severance and lease obligations, respectively, including \$2.9 million in lease obligations recorded as long-term liabilities. Our future cash obligations for leases for which we have vacated the underlying facilities totaled approximately \$11.3 million at June 30, 2011. The lease accruals represent the present value of the excess of our lease commitments on the vacated space over expected payments to be received on subleases of the relevant facilities. The lease payments will be made over the remaining terms of the leases, which have varying expiration dates through 2017, unless we are able to negotiate earlier terminations. The severance payments will be made during the next twelve months. Cash payments resulting from restructuring obligations totaled approximately \$7.2 million during the first six months of 2011. All payments related to restructuring actions are expected to be funded through working capital. See Note 16 of the unaudited condensed consolidated financial statements in Item 1 of this report for the restructuring costs and accruals activity for the six months ended June 30, 2011.

Deferred revenues, including long-term amounts, increased by \$11.9 million to \$61.4 million at June 30, 2011, from \$49.5 million at December 31, 2010. This increase was largely the result of an increase in deferrals related to maintenance contracts, resulting from an increase in new maintenance contracts and improved renewal rates for existing contracts, as well as the timing of contract renewals. Deferrals related to large deals for which revenue will be recognized upon later delivery or upon meeting other contractual terms also increased during the first six months of 2011.

Cash Flows from Investing Activities

For the six months ended June 30, 2011, the net cash flow used in investing activities primarily reflected \$6.1 million used for the purchase of property and equipment. For the six months ended June 30, 2010, the net cash flow used in investing activities primarily reflected \$27.0 million paid to acquire Blue Order and Euphonix and \$22.5 million used for the purchase of property and equipment, partially offset by net proceeds of \$17.4 million resulting from the timing of the sale and purchase of marketable securities.

While our purchases of property and equipment typically consist of computer hardware and software to support our R&D activities and information systems, the significant decrease in property and equipment purchases in the 2011 period primarily reflected our increased costs in 2010, which were not present in 2011, for leasehold improvements, furniture and equipment associated with the relocation of our corporate offices to Burlington, Massachusetts in June 2010. During the six months ended June 30, 2010, leasehold improvements furniture and equipment related to this relocation were placed in service and resulted in fixed asset additions of approximately \$31.4 million, of which \$15.4 million represented cash expenditures during the period. During the same period, we wrote off fixed assets with gross book values of approximately \$22.6 million that were related to the closure of our former headquarters facility.

Cash Flows from Financing Activities

For the six months ended June 30, 2011, the net cash flow provided by financing activities primarily reflected borrowings under our revolving credit facilities that had not been repaid at June 30, 2011, as well as proceeds from the issuance of common stock related to the exercise of stock options and purchases under our employee stock purchase plan, partially offset by costs associated with tax withholding obligations related to the issuance of common stock under the plans. During the first six months of 2011, our U.S. operations borrowed funds under our revolving credit facilities to meet certain short-term cash requirements, of which \$13.0 million was outstanding at June 30, 2011. At June 30, 2011, we were in compliance with all debt agreement covenants and had additional available borrowings under the credit facilities of approximately \$35.5 million after taking into consideration the liquidity covenants. For the six months ended June 30, 2010, the cash used in financing activities reflected costs associated with tax withholding obligations resulting from the issuance of common stock under employee stock plans, partially offset by proceeds from the issuance of common stock under employee stock plans.

Fair Value Measurements

We value our cash and investment instruments using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. See Notes 3 and 4 to our unaudited condensed consolidated financial statements included in Item 1 of this report for the disclosure of the fair values and the inputs used to determine the fair values of our financial assets and financial liabilities.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1 to our unaudited condensed consolidated financial statements included in Item 1 of this report for disclosure of the impact that recent accounting pronouncements have had or may have on our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

Foreign Currency Exchange Risk

We have significant international operations and, therefore, our revenues, earnings, cash flows and financial position are exposed to foreign currency risk from foreign-currency-denominated receivables, payables, sales transactions and net investments in foreign operations. We derive more than half of our revenues from customers outside the United States. This business is, for the most part, transacted through international subsidiaries and generally in the currency of the end-user customers. Therefore, we are exposed to the risks that changes in foreign currency could adversely affect our revenues, net income and cash flow.

We may use derivatives in the form of foreign currency forward contracts to manage certain short-term exposures to fluctuations in the foreign currency exchange rates that exist as part of our ongoing international business operations. We do not enter into any derivative instruments for trading or speculative purposes. The success of our hedging programs depends on forecasts of transaction activity in the various currencies and contract rates versus financial statement rates. To the extent these forecasts are overstated or understated during periods of currency volatility, we could experience unanticipated currency gains or losses.

As required by FASB ASC Topic 815, Derivatives and Hedging, we record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as hedges of the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk are considered fair value hedges. Derivatives designated and qualifying as hedges of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of its risks, even though we elect not to apply hedge accounting under ASC Topic 815.

From time to time, we may execute foreign currency forward contracts to hedge the foreign exchange currency risk associated with certain forecasted euro-denominated sales transactions. These contracts are designated and intended to qualify as cash flow hedges under the criteria of ASC Topic 815. The effective portion of the changes in the fair value of derivatives designated and qualifying as cash flow hedges is initially reported as a component of accumulated other comprehensive income (loss) in stockholders' equity and subsequently reclassified into revenues at the time the hedged transactions affect earnings. The ineffective portion of the change in fair value is recognized directly into earnings. During the three- and six-month periods ended June 30, 2011 and 2010, we did not use forward contracts to hedge the foreign exchange currency risk associated with our forecasted euro-denominated sales transactions, and no such foreign currency forward contracts existed at either June 30, 2011 or December 31, 2010.

In an effort to hedge against the foreign exchange exposure of certain forecasted receivables, payables and cash balances, we enter into short-term foreign currency forward contracts. There are two objectives of this foreign currency forward-contract program: (1) to offset any foreign exchange currency risk associated with cash receipts expected to be received from our customers and cash payments expected to be made to our vendors over the next

30-day period and (2) to offset the impact of foreign currency exchange on our net monetary assets denominated in currencies other than the functional currency of the legal entity. These forward contracts typically mature within 30 days of execution. We record gains and losses associated with currency rate changes on these contracts in results of operations, offsetting gains and losses on the related assets and liabilities.

At June 30, 2011, we had foreign currency forward contracts outstanding with an aggregate notional value of \$65.3 million, denominated in the euro, British pound, Japanese yen, Canadian dollar, Singapore dollar and Danish kroner, as a hedge against actual and forecasted foreign-currency-denominated receivables, payables and cash balances. At June 30, 2011, the fair value of the foreign currency forward contracts was (\$212) thousand, representing a net unrealized loss consisting of a net unrealized loss of (\$225) thousand from contracts that matured on, but were unsettled at, June 30, 2011, partially offset by a mark-to-market net unrealized gain of \$13 thousand from contracts with maturity dates after June 30, 2011. For the six months ended June 30, 2011, net gains of \$3.1 million resulting from forward contracts and \$2.6 million of net transaction and remeasurement losses on the related assets and liabilities were included in our marketing and selling expenses.

As it relates to our use of foreign currency forward contracts, a hypothetical 10% change in foreign currency rates would not have a material impact on our financial position, results of operations or cash flows, assuming the above-mentioned forecasts of foreign currency exposure are accurate, because the impact on the forward contracts as a result of a 10% change would at least partially offset the impact on the revenues and asset and liability positions of our foreign subsidiaries.

Interest Rate Risk

At June 30, 2011, we held \$37.6 million in cash and cash equivalents. Due to the short maturities on any instruments held, a hypothetical 10% increase or decrease in interest rates would not have a material impact on our financial position, results of operations or cash flows. In 2010, we established revolving credit facilities that allow us to borrow up to \$60 million. A hypothetical 10% increase or decrease in interest rates paid on outstanding borrowings under the credit line would not have a material impact on our financial position, results of operations or cash flows.

ITEM 4.

CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2011. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

Based on the evaluation of our disclosure controls and procedures as of June 30, 2011, our chief executive officer and chief financial officer concluded that, as of that date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting occurred during the fiscal quarter ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Controls

Our management, including the chief executive officer and chief financial officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of any control system reflects the fact that there are limited resources, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur due to human error or mistake. Additionally, controls can be circumvented by collusion of two or more people. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are involved in legal proceedings from time to time arising from the normal course of business activities, including but not limited to claims of alleged infringement of intellectual property rights and commercial, employment, piracy prosecution and other matters. We do not believe these matters will have a material adverse effect on our financial position, results of operations or cash flows. However, our financial position, results of operations or cash flows may be negatively affected by the unfavorable resolution of one or more of these proceedings.

ITEM 1A. RISK FACTORS.

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described in Part I - Item 1A under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010 in addition to the other information included or incorporated by reference in this quarterly report before making an investment decision regarding our common stock. If any of these risks actually occurs, our business, financial condition or operating results would likely suffer, possibly materially, the trading price of our common stock could decline, and you could lose part or all of your investment.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Issuer Purchases of Equity Securities

The following table is a summary of our stock repurchases during the three months ended June 30, 2011:

Period	Total Number of Shares Repurchased(a)	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of the Publicly Announced Program	Dollar Value of Shares That May Yet be Purchased Under the Program(b)
April 1 – April 30, 2011	–	–	–	\$ 80,325,905
May 1 – May 31, 2011	–	–	–	80,325,905
June 1 – June 30, 2011	2,607	17.42	–	80,325,905
	2,607	\$ 17.42	–	\$ 80,325,905

(a) In June 2011, we acquired upon surrender 2,607 shares of restricted stock from an employee to pay required withholding taxes upon the vesting of restricted stock.

(b) In April 2007, we initiated a stock repurchase program that ultimately authorized the repurchase of up to \$200 million of our common stock through transactions on the open market, in block trades or otherwise. At June 30, 2011, \$80.3 million remained available for future stock repurchases under the program. The stock repurchase

program is funded through working capital and has no expiration date. The last repurchase of shares of our common stock under this program was in March 2008.

ITEM 6.

EXHIBITS.

The list of exhibits, which are filed or furnished with this report or which are incorporated herein by reference, is set forth in the Exhibit Index immediately preceding the exhibits and is incorporated herein by reference.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 9, 2011

By: /s/ Ken Sexton
Ken Sexton
Executive Vice President, Chief
Financial Officer and Chief
Administrative Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit No.	Description	Filed with this Form 10-Q	Incorporated by Reference		
			Form or Schedule	SEC Filing Date	SEC File Number
10.1#	2011 Executive Bonus Plan	X			
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
101.INS##	XBRL Instance Document				
101.SCH##	XBRL Taxonomy Extension Schema Document				
101.CAL##	XBRL Taxonomy Calculation Linkbase Document				
101.LAB##	XBRL Taxonomy Label Linkbase Document				
101.PRE##	XBRL Taxonomy Extension Presentation Linkbase Document				

Management contract or compensatory plan identified pursuant to Item 15(a)(3)
Pursuant to Rule 406T of Regulation S-T, XBRL (Extensible Business Reporting Language) information is deemed not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934 and otherwise is not subject to liability under these sections.

