AVID TECHNOLOGY, INC.
Form 10-Q
September 12, 2014

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2013

OR

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

FOR THE TRANSITION PERIOD FROM __________ TO __________

Commission File Number: 0-21174

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

Delaware	04-2977748
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ¨ No x

Indicate by check mark whether the registrant has submitted and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

The number of shares outstanding of the registrant's Common Stock as of August 29, 2014 was 39,159,269.

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This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For this purpose, any statements contained in this Form 10-Q that relate to future results or events are forward-looking statements.

Forward-looking statements include, but are not limited to, statements regarding:

- our ability to mitigate and remediate effectively the material weaknesses in our internal controls over financial reporting;
- the development, marketing and selling of new products and services;
- our ability to successfully implement our Avid Everywhere strategic plan;
- anticipated trends relating to our sales, financial condition or results of operations;
- our goal of expanding our market positions;
- our capital resources and the adequacy thereof;
- the anticipated trends and development of our markets and the success of our products in these markets;
- our plans regarding the relisting of our common stock on The NASDAQ Stock Market, or NASDAQ, and the liquidity of our stock;
- the risk of restatement of our financial statements;
- the anticipated performance of our products;
- business strategies and market positioning;
- the impact and costs and expenses of any litigation and government inquiries we may be subject to now or in the future;
- the effect of the continuing worldwide macroeconomic uncertainty on our business and results of operation;
- estimated asset and liability values and amortization of our intangible assets;
- our compliance with covenants contained in our indebtedness;
- changes in inventory levels;
- seasonal factors;
- plans regarding repatriation of foreign earnings;
- transactions and valuations of investments and derivative instruments; and
- fluctuations in foreign exchange and interest rates.

Forward-looking statements may be identified by use of forward-looking words, such as “anticipate,” “believe,” “confidence,” “could,” “estimate,” “expect,” “feel,” “intend,” “may,” “plan,” “should,” “seek,” “will” and “would,” or similar 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 indicated 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, 2013. In addition, the forward-looking statements contained in this Form 10-Q 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.

We own or have rights to trademarks and service marks that we use in connection with the operation of our business. Avid is a trademark of Avid Technology, Inc. Other trademarks, logos, and slogans registered or used by us and subsidiaries in the United States and other countries include, but are not limited to, the following: Avid Everywhere, Avid Motion Graphics, AirSpeed, EUCON, Fast Track, iNEWS, Interplay, ISIS, Avid MediaCentral, Mbox, Media Composer, NewsCutter, Nitris, Pro Tools, Sibelius and Symphony. Other trademarks appearing in this Form 10-Q are the property of their respective owners.

PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AVID TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands except per share data, unaudited)

	Three Months Ended March 31,	
	2013	2012 (Restated)
Net revenues:		
Products	$98,718	$127,706
Services	37,353	31,445
Total net revenues	136,071	159,151
Cost of revenues:		
Products	37,015	45,482
Services	15,276	14,411
Amortization of intangible assets	651	650
Total cost of revenues	52,942	60,543
Gross profit	83,129	98,608
Operating expenses:		
Research and development	23,607	26,460
Marketing and selling	33,909	41,873
General and administrative	15,597	14,348
Amortization of intangible assets	663	1,611
Restructuring costs, net	273	444
Total operating expenses	74,049	84,736
Operating income	9,080	13,872
Interest income	73	129
Interest expense	(335)	(343)
Other income, net	4	20
Income from continuing operations before income taxes	8,822	13,678
Provision for income taxes, net	557	2,672
Income from continuing operations, net of tax	8,265	11,006
Discontinued operations:		
Income from divested operations	—	5,059
Income from discontinued operations	—	5,059
Net income	$8,265	$16,065
Income per common share – basic:		
Income per share from continuing operations, net of tax – basic	$0.21	$0.29
Income per share from discontinued operations – basic	—	0.13
Net income per common share – basic	$0.21	$0.42
Income per common share – diluted:		
Income per share from continuing operations, net of tax – diluted	$0.21	$0.28
Income per share from discontinued operations – diluted	—	0.13
Net income per common share – diluted	$0.21	$0.41
Weighted-average common shares outstanding – basic	38,977	38,662
Weighted-average common shares outstanding – diluted	39,034	38,721

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

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

	Three Months Ended March 31,	
	2013	2012 (Restated)
Net income	$8,265	$16,065
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(2,611)	2,148
Comprehensive income	$5,654	$18,213

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

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

	March 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$64,506	$ 70,390
Accounts receivable, net of allowances of $18,648 and $20,977 at March 31, 2013 and December 31, 2012, respectively	56,625	67,956
Inventories	66,643	69,143
Deferred tax assets, net	560	586
Prepaid expenses	10,681	9,060
Other current assets	18,729	19,950
Total current assets	217,744	237,085
Property and equipment, net	38,719	41,441
Intangible assets, net	7,765	9,217
Long-term deferred tax assets, net	2,701	2,825
Other long-term assets	2,943	3,793
Total assets	$269,872	$ 294,361
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$29,968	$ 35,425
Accrued compensation and benefits	22,485	25,177
Accrued expenses and other current liabilities	30,389	34,003
Income taxes payable	6,931	7,969
Deferred tax liabilities, net	200	203
Deferred revenues	231,362	230,305
Total current liabilities	321,335	333,082
Long-term deferred tax liabilities, net	695	713
Long-term deferred revenue	309,569	328,180
Other long-term liabilities	16,138	17,978
Total liabilities	647,737	679,953
Contingencies (Note 10)		
Stockholders' deficit:		
Common stock	423	423
Additional paid-in capital	1,040,128	1,039,562
Accumulated deficit	(1,349,414)	(1,357,679)
Treasury stock at cost, net of reissuances	(74,036)	(75,542)
Accumulated other comprehensive income	5,034	7,644
Total stockholders' deficit	(377,865)	(385,592)
Total liabilities and stockholders' deficit	$269,872	$ 294,361

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

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AVID TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, unaudited)

	Three Months Ended March 31, 2013	2012 (Restated)
Cash flows from operating activities:		
Net income	$8,265	$16,065
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	6,135	7,872
Recovery of doubtful accounts	(36)	(111)
Gain on sales of assets	(125)	—
Stock-based compensation expense	2,077	2,911
Non-cash interest expense	73	73
Foreign currency transaction losses (gains)	44	(1,028)
Provision for deferred taxes	3	372
Changes in operating assets and liabilities:		
Accounts receivable	11,366	18,307
Inventories	2,501	6,550
Prepaid expenses and other current assets	(374)	411
Accounts payable	(5,383)	(5,376)
Accrued expenses, compensation and benefits and other liabilities	(7,532)	(10,837)
Income taxes payable	(878)	1,384
Deferred revenues	(17,546)	(17,850)
Net cash (used in) provided by operating activities	(1,410)	18,743
Cash flows from investing activities:		
Purchases of property and equipment	(2,126)	(3,589)
Proceeds from sale of assets	125	—
Increase in other long-term assets	(8)	(366)
Net cash used in investing activities	(2,009)	(3,955)
Cash flows from financing activities:		
Proceeds from the issuance of common stock under employee stock plans	176	282
Common stock repurchases for tax withholdings for net settlement of equity awards	(181)	(454)
Proceeds from revolving credit facilities	—	1,000
Payments on revolving credit facilities	—	(1,000)
Net cash used in financing activities	(5)	(172)
Effect of exchange rate changes on cash and cash equivalents	(2,460)	2,210
Net (decrease) increase in cash and cash equivalents	(5,884)	16,826
Cash and cash equivalents at beginning of period	70,390	32,855
Cash and cash equivalents at end of period	$64,506	$49,681
Supplemental information:		
Cash paid for income taxes, net of refunds	$476	$714
Cash paid for interest	262	270

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

AVID TECHNOLOGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. FINANCIAL INFORMATION

The accompanying condensed consolidated financial statements include the accounts of Avid Technology, Inc. and its wholly owned subsidiaries (collectively, "Avid" or the "Company"). These financial statements are unaudited. However, in the opinion of management, the condensed consolidated financial statements reflect all normal and recurring adjustments necessary for their fair statement. Interim results are not necessarily indicative of results expected for any other interim period or a full year. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and footnotes necessary for a complete presentation of operations, comprehensive income, 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, 2012 was derived from the Company's audited consolidated financial statements but does not include all disclosures required by U.S. GAAP for annual financial statements. The Company's audited consolidated financial statements as of and for the year ended December 31, 2012 are included in its Annual Report on Form 10-K for the year ended December 31, 2013, which includes all information and footnotes necessary for such presentation. The financial statements contained in this Form 10-Q should be read in conjunction with the audited consolidated financial statements in the Form 10-K.

The Company's preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from the Company's estimates.

The Company has generally funded operations in recent years through the use of existing cash balances and cash flows from operations, which have been supplemented from time to time with borrowings under credit facilities. At December 31, 2013, the Company's principal sources of liquidity included cash and cash equivalents totaling $48.2 million and available borrowings under the Company's credit facilities. Cash used in operating activities aggregated $9.1 million for the year ended December 31, 2013. This cash use reflected significant spending on restatement-related activities, restructuring related activities and executive management changes of $13.2 million, $13.2 million and $2.4 million, respectively. The spending associated with the restatement and restructuring activities is expected to materially abate by the end of 2014. The spending associated with the executive management changes was substantially completed in 2013.

The Company's cash requirements vary depending on factors such as the growth of the business, changes in working capital, capital expenditures, acquisitions of businesses or technologies and obligations under restructuring programs. Management expects to operate the business and execute its strategic initiatives principally with funds generated from operations and the Company's external sources of credit under the credit facilities. Management anticipates that the Company will have sufficient internal and external sources of liquidity to fund operations and anticipated working capital and other expected cash needs for at least the next twelve months as well as for the foreseeable future.

Subsequent Events

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") that established two revolving credit facilities with combined maximum availability of up to $60 million for borrowings and letter of credit guarantees (the "Credit Agreement"). On August 29, 2014, the Company entered into an amendment (the "Amendment") to its Credit Agreement with Wells Fargo. The Amendment (i) extended the maturity of the Credit Agreement from October 1, 2014 to October 1, 2015, (ii) changed the maximum amounts available under each of the revolving credit facilities, (iii) and added certain covenants, as described below.

Under the Amendment, the maximum amount available for Avid Technology, Inc., (“Avid Technology”) was increased to $45 million (from $40 million) and the maximum amount available for its subsidiary Avid Technology International B.V. (“Avid Europe”) was decreased to $15 million (from $20 million). The maximum amount available under the combined credit facilities continues to be $60 million, subject to certain limitations on borrowing and other terms and conditions as provided in the Credit Agreement.

The Amendment further limits the Company’s ability to access borrowings under the credit facilities if (i) EBITDA (as defined in the Amendment) of $33.8 million is not achieved for the year ending December 31, 2014, or (ii) capital expenditures (as defined in the Amendment) exceed $16.0 million for the year ending December 31, 2014.

The Company evaluated subsequent events through the date of issuance of these financial statements and except for the subsequent events disclosed above and in Note 10, no other recognized or unrecognized subsequent events required recognition or disclosure in these financial statements.

Recent Accounting Pronouncements To Be Adopted

On May 28, 2014, the Financial Accounting Standards Board (the “FASB”) and the International Accounting Standards Board (the “IASB”) issued substantially converged final standards on revenue recognition. The FASB's Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), was issued in three parts: (a) Section A, “Summary and Amendments That Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs-Contracts with Customers (Subtopic 340-40),” (b) Section B, “Conforming Amendments to Other Topics and Subtopics in the Codification and Status Tables” and (c) Section C, “Background Information and Basis for Conclusions.” The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance.

The new revenue recognition guidance becomes effective for the Company on January 1, 2017, and early adoption is not permitted. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance in the ASU. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

2. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

Background

In early 2013, during the course of the Company’s review of its financial results for the fourth quarter and full year of 2012, management identified a historical practice of the Company making available, at no charge to its customers, minor feature and/or compatibility enhancements, as well as bug fixes on a when-and-if-available basis (collectively, “Software Updates”) that management has concluded meets the definition of post-contract customer support (“PCS”) under U.S. GAAP. The business practice of providing Software Updates at no charge for many of the Company’s products creates an implicit obligation and an additional undelivered element for each impacted arrangement (referred to as “Implied Maintenance Release PCS”). The Company’s identification of this additional undelivered element in substantially all of its customer arrangements has a significant impact on the historical revenue recognition policies because this element had not been previously accounted for in any period.

As a result of the foregoing and as explained more fully below, the Company has restated its financial statements for the three months ended March 31, 2012.

Restatement Adjustments

Revenue Recognition

The failure to identify and account for the existence of Implied Maintenance Release PCS resulted in errors in the timing of revenue recognition reported in the Company’s previously issued consolidated financial statements.

Historically, the Company generally recognized revenue upon product shipment or over the period services and post-contract customer support were provided (assuming other revenue recognition conditions were met). As described more fully in the Company’s policy for “Revenue Recognition” in Note A to the Consolidated Financial Statements in Item 8 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2013, the existence of Implied Maintenance Release PCS in a customer arrangement requires recognition of some or all arrangement consideration, depending on GAAP applicable to the deliverables, over the period of time that the Implied Maintenance Release PCS is delivered, which is after product delivery or services are rendered and is generally several years. The errors in the timing of revenue recognition have been corrected in the restated condensed consolidated financial statements. The significant change in the pattern of revenue recognition also had indirect impacts on revenue related accounts, such as sales return allowances and, as discussed further below, non-revenue accounts such as stock-based compensation and income taxes, which have also been restated in the restated condensed consolidated financial statements.

Stock-Based Compensation

As a result of the change in the timing of revenue recognition described above, the timing and amount of stock-based compensation expense attributable to performance-based awards, where expected vesting was based on profitability, also changed. Due to the restated historical financial statements, many of the performance-based awards have vested earlier than originally estimated.

Restructuring

The Company also identified errors in severance costs adjustments due to an incorrect estimate originally recorded in the three months ended March 31, 2012.

Other Adjustments

In addition to correcting the restatement adjustments described above, the Company also recorded other adjustments for other errors identified during the restatement process, including reclassifications between cost of sales and operating expenses, as well as errors in inventories and accrued liabilities. The provision for income taxes has been adjusted to reflect the changes in quarterly income before taxes.

Discontinued Operations

On July 2, 2012, the Company exited its consumer business through the sale of the assets of that business in two separate transactions. As described further in Note 7, the disposition of the consumer business qualified for presentation as discontinued operations; therefore, these financial statements have been retrospectively adjusted for all periods presented to report the consumer business as a discontinued operation. The Adjustments to Condensed Consolidated Statement of Operations and Adjustments to Condensed Consolidated Statement of Cash Flows tables below also include a column for discontinued operations to allow reconciliation back to the originally issued financial statements.

Adjustments to Condensed Consolidated Statement of Operations

The following table presents the impact of the financial statement adjustments on the Company's previously reported condensed consolidated statements of operations for the three months ended March 31, 2012 (in thousands except per share data):

	Three Months Ended March 31, 2012				
	As Previously Reported	Revenue Restatement Adjustments	Other Restatement Adjustments	Discontinued Operations	As Restated
Net revenues:					
Products	$119,938	30,564	—	(22,796)	$127,706
Services	32,201	(756)	—	—	31,445
Total net revenues	152,139	29,808	—	(22,796)	159,151
Cost of revenues:					
Products	61,208	—	(491)	(15,235)	45,482
Services	12,717	—	1,694	—	14,411
Amortization of intangible assets	650	—	—	—	650
Total cost of revenues	74,575	—	1,203	(15,235)	60,543
Gross profit	77,564	29,808	(1,203)	(7,561)	98,608
Operating expenses:					
Research and development	27,482	—	(245)	(777)	26,460
Marketing and selling	45,927	—	(2,898)	(1,156)	41,873
General and administrative	14,638	—	279	(569)	14,348
Amortization of intangible assets	1,611	—	—	—	1,611
Restructuring costs, net	168	—	276	—	444
Total operating expenses	89,826	—	(2,588)	(2,502)	84,736
Operating (loss) income	(12,262)	29,808	1,385	(5,059)	13,872
Interest income	129	—	—	—	129
Interest expense	(343)	—	—	—	(343)
Other income	20	—	—	—	20
(Loss) income from continuing operations before income taxes	(12,456)	29,808	1,385	(5,059)	13,678
Provision for income taxes, net	521	—	2,151	—	2,672
(Loss) income from continuing operations, net of tax	(12,977)	29,808	(766)	(5,059)	11,006
Discontinued operations:					
Income from divested operations	—	—	—	5,059	5,059
Net (loss) income	$(12,977)	$ 29,808	$ (766)	$ —	$16,065
(Loss) income per common share – basic:					
(Loss) income per share from continuing operations, net of tax – basic	$(0.34)				$0.29
Income per share from discontinued operations – basic	—				0.13
Net (loss) income per common share – basic	$(0.34)				$0.42
(Loss) income per common share – basic:					
(Loss) income per share from continuing operations, net of tax – diluted	$(0.34)				$0.28
Income per share from discontinued operations – diluted	—				0.13

Net (loss) income per common share – diluted	$(0.34)	$0.41
Weighted-average common shares outstanding – basic	38,662	38,662
Weighted-average common shares outstanding – diluted	38,662	38,721

Adjustments to Condensed Consolidated Statement of Cash Flows

The following table presents the impact of the financial statement adjustments on the Company's previously reported condensed consolidated statement of cash flows for the three months ended March 31, 2012 (in thousands):

	Three Months Ended March 31, 2012				
	As Previously Reported	Revenue Restatement Adjustments	Other Restatement Adjustments	Discontinued Operations	As Restated
Cash flows from operating activities:					
Net (loss) income	$(12,977)	29,808	$(766)	—	$16,065
Adjustments to reconcile net (loss) income to net cash provided by operating activities:					
Depreciation and amortization	7,574	—	298	—	7,872
Recovery of doubtful accounts	(77)	—	(34)	—	(111)
Gain on disposal of fixed assets	(2)	—	2	—	—
Stock-based compensation expense	3,133	—	(222)	—	2,911
Non-cash interest expense	73	—	—	—	73
Foreign currency transaction losses (gains)	2,298	—	(3,326)	—	(1,028)
Provision for deferred taxes	372	—	—	—	372
Changes in operating assets and liabilities:					
Accounts receivable	16,857	1,472	(22)	—	18,307
Inventories	7,731	—	(1,181)	—	6,550
Prepaid expenses and other current assets	(975)	—	1,386	—	411
Accounts payable	(5,376)	—	—	—	(5,376)
Accrued expenses, compensation and benefits and other liabilities	(12,338)	—	1,501	—	(10,837)
Income taxes payable	(766)	—	2,150	—	1,384
Deferred revenues	13,431	(31,280)	(1)	—	(17,850)
Net cash provided by operating activities	18,958	—	(215)	—	18,743
Cash flows from investing activities:					
Purchases of property and equipment	(3,588)	—	(1)	—	(3,589)
Change in other long-term assets	1,318	—	(1,684)	—	(366)
Net cash used in investing activities	(2,270)	—	(1,685)	—	(3,955)
Cash flows from financing activities:					
Proceeds from issuance of common stock under employee stock plans	(172)	—	454	—	282
Common stock repurchases for tax withholdings for net settlement of equity awards	—	—	(454)	—	(454)
Proceeds from revolving credit facilities	1,000	—	—	—	1,000
Payments on revolving credit facilities	(1,000)	—	—	—	(1,000)
Net cash used in financing activities	(172)	—	—	—	(172)
Effect of exchange rate changes on cash and cash equivalents	310	—	1,900	—	2,210
Net increase in cash and cash equivalents	16,826	—	—	—	16,826
Cash and cash equivalents at beginning of period	32,855	—	—	—	32,855

Cash and cash equivalents at end of period	$49,681	$—	$—	$—	$49,681

3. NET INCOME PER SHARE

Net income per common share is presented for both basic income per share (“Basic EPS”) and diluted income per share (“Diluted EPS”). Basic EPS is based on the weighted-average number of common shares outstanding during the period. 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 earnings per share calculations for the relevant periods 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 conditions, market conditions, or a combination of performance or market conditions.

	Three Months Ended March 31,	
	2013	2012
Options	5,605	5,644
Non-vested restricted stock units	475	617
Anti-dilutive potential common shares	6,080	6,261

4. FOREIGN CURRENCY CONTRACTS

As a 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 cash flows associated with net monetary assets are recorded as gains or losses in the Company’s statement of operations in the period of change, because these contracts have not been accounted for as hedges. At March 31, 2013 and December 31, 2012, the Company had foreign currency forward contracts outstanding with aggregate notional values of $22.2 million and $23.6 million, respectively, as hedges against such forecasted foreign-currency-denominated receivables, payables and cash balances. These forward contracts typically mature within 30 days of execution.

The Company may also enter into short-term foreign currency spot and forward contracts as a hedge against the foreign currency exchange risk associated with certain of its net monetary assets denominated in foreign currencies. At March 31, 2013 and December 31, 2012, the Company had such foreign currency contracts with aggregate notional values of $3.0 million and $5.3 million, respectively. The fair values of these foreign currency contracts are also recorded as gains or losses in the Company’s statement of operations in the period of change.

The following table sets forth the balance sheet classification and fair values of the Company’s foreign currency contracts at March 31, 2013 and December 31, 2012 (in thousands):

Derivatives Not Designated as Hedging Instruments Under Accounting Standards Codification (“ASC”) Topic 815	Balance Sheet Classification	Fair Value at March 31, 2013	Fair Value at December 31, 2012
Financial assets:			
Foreign currency contracts	Other current assets	$79	$157
Financial liabilities:			
Foreign currency contracts	Accrued expenses and other current liabilities	$303	$337

The following table sets forth the net foreign exchange losses recorded as marketing and selling expenses in the Company’s condensed consolidated statements of operations during the three months ended March 31, 2013 and 2012 that resulted from the Company’s foreign currency contracts and the revaluation of the related hedged items (in thousands):

Derivatives Not Designated as Hedging Instruments under ASC Topic 815	Net (Loss) Gain Recorded in Marketing and Selling Expenses Three Months Ended March 31,	
	2013	2012 (Restated)
Foreign currency contracts and revaluation of hedged items, net	$266	$(125)

See Note 5 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.

5. 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 foreign-currency contracts, cash equivalents, marketable securities and insurance contracts held in deferred compensation plans. At March 31, 2013 and December 31, 2012, all of the Company's financial assets and liabilities were classified as either Level 1 or Level 2 in the fair value hierarchy. Assets valued using quoted market prices in active markets and classified as Level 1 are certain deferred compensation investments, primarily money market and mutual funds. Assets and liabilities valued based on other observable inputs and classified as Level 2 are foreign currency contracts and certain deferred compensation investments.

The following tables summarize the Company’s fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis at March 31, 2013 and December 31, 2012 (in thousands):

		Fair Value Measurements at Reporting Date Using		
	March 31, 2013	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	$1,682	$1,110	$572	$—
Foreign currency contracts	79	—	79	—
Financial Liabilities:				
Foreign currency contracts	303	—	303	—

		Fair Value Measurements at Reporting Date Using		
	December 31, 2012	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	$1,680	$1,097	$583	$—
Foreign currency contracts	157	—	157	—
Financial Liabilities:				
Foreign currency contracts	337	—	337	—

The fair values of Level 1 deferred compensation assets are determined using a market approach based on quoted market prices of the underlying securities. The fair values of the Level 2 deferred compensation assets are determined using an income approach based on observable inputs including the 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 foreign currency contracts are classified as Level 2 in the fair value hierarchy and are measured at fair value on a recurring basis using an income approach based on observable inputs. The primary inputs used to fair value foreign currency contracts are published foreign currency exchange rates as of the date of valuation. See Note 4 for information on the Company’s foreign currency contracts.

Financial Instruments Not Recorded at Fair Value

The carrying amounts of the Company’s other financial assets and liabilities including cash, accounts receivable, 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.

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6. INVENTORIES

Inventories consisted of the following at March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013