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

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): **February 1, 2007**

AVID TECHNOLOGY, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

0-21174
(Commission File Number)

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

Avid Technology Park, One Park West, Tewksbury, MA
(Address of Principal Executive Offices)

01876
(Zip Code)

Registrant's telephone number, including area code: **(978) 640-6789**

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - ☐ Pre-commencement communications pursuant to Rule 14d-2 (b) under the Exchange Act (17 CFR 240.14d-2(b))
 - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Item 2.02 Results of Operations and Financial Condition.

On February 1, 2007, Avid Technology, Inc. (the “Company”) announced its financial results for the quarter and year ended December 31, 2006. The full text of the press release issued in connection with the announcement is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

The information contained in Item 2.02 of this Form 8-K (including Exhibit 99.1) shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”) or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such a filing.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On January 26, 2007, Paul J. Milbury, Vice President and Chief Financial Officer of the Company, notified the Company of his intention to resign his position effective March 2, 2007 to pursue a career opportunity with a private company. Joel Legon, Vice President and Corporate Controller of the Company, will become Acting Chief Financial Officer and Principal Financial Officer effective March 2, 2007 with an annual base salary of \$275,000. He will also be eligible to receive an annual bonus equal to 50% of his base salary. In addition, in connection with his service as Acting Chief Financial Officer, Mr. Legon will receive an additional one-time cash bonus of \$100,000. Mr. Legon will continue to also serve as the Company’s Principal Accounting Officer.

Mr. Legon, 56, joined the Company in March 2006 as Vice President and Corporate Controller. From January 1998 through March 2006, he served in several finance roles at Parametric Technology Corporation, the most recent position being Senior Vice President of Finance and Corporate Controller. Prior to that, Mr. Legon held finance positions at Computervision, Inc., NEC Corporation of America, Chesebrough Ponds USA Co. and Richardson-Vicks Inc.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

The following exhibit relating to Item 2.02 shall be deemed to be furnished, and not filed:

99.1 Press Release issued by the Registrant on February 1, 2007.

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 hereunto duly authorized.

Date: February 1, 2007

AVID TECHNOLOGY, INC.
(Registrant)

By: /s/ Paul J. Milbury
Paul J. Milbury
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

| <u>Exhibit</u> | <u>Description</u> |
|----------------|--|
| 99.1 | Press release issued by the Registrant dated February 1, 2007. |



Contact: Dean Ridlon, Investor Relations Director
Phone: 978.640.5309
Email: Investor_Relations@avid.com

Avid Reports Fourth Quarter 2006 Results

Tewksbury, MA – February 1, 2007 – Avid Technology, Inc. (NASDAQ: AVID) today reported revenues of \$239.0 million for the three-month period ended December 31, 2006 compared to \$245.0 million for the same period in 2005. GAAP net loss for the quarter was \$52.6 million, or \$1.28 per share compared to GAAP net income of \$18.4 million, or \$.43 per diluted share, in the fourth quarter of 2005.

GAAP net loss in the fourth quarter of 2006 includes a non-cash charge of \$53.0 million for the impairment of goodwill associated with the acquisition of Pinnacle Systems in August 2005. As a result of completing its annual goodwill impairment test in the fourth quarter, the company concluded that the fair value of the consumer business unit had declined below the book value, resulting in the impairment charge.

In addition, the company took a restructuring charge of \$3.2 million as a result of reorganizations within the Professional Video and Consumer Video segments that took place during the quarter.

These charges plus amortization, stock-based compensation and related tax adjustments totaled \$75.1 million during the fourth quarter. Excluding these items, non-GAAP earnings per share were \$.54. For the fourth quarter of 2005, there was \$11.6 million of acquisition-related charges, including amortization, stock-based compensation, restructuring costs and related tax adjustments included in GAAP net income. Excluding these items, non-GAAP earnings per share were \$.69 in the fourth quarter of 2005.

“As we look back at our performance in Q4, and the full year of 2006, it’s clear that our results were mixed. While our big deal backlog continued to build each quarter throughout the year, including Q4, bringing us to record levels, recognizing revenue out of this backlog continued to be unpredictable. This led to a shortfall in our video business for the fourth quarter,” said David Krall, Avid’s president and chief executive officer. “Our audio business recovered nicely from the slowdown in demand that we saw in Q3 for Digidesign’s Pro Tools|HD® systems, allowing a strong finish for the year. In consumer, we had lower than expected results for the year as the business was slow to recover from the product quality problems with the Studio 10 software. We took an impairment charge in the fourth quarter to reflect the

decline in the fair value of the consumer business unit. Nevertheless, we believe that the product quality problems are now behind us, and are pleased that we achieved higher-than expected consumer revenues in Q4 based on strong demand in Europe. We have taken a number of steps to position all of our businesses more favorably for the coming year, including a cost restructuring in our consumer business which took place in Q4. Graham Sharp, our new general manager for our video division, has already implemented a number of changes that are intended to improve the segment's operations. However, we do not expect the full benefits of these efforts to be realized immediately."

Revenues for the year ended December 31, 2006, were \$910.6 million compared to revenues of \$775.4 million for 2005. GAAP net loss for 2006 was \$42.9 million, or \$1.03 per share, compared to GAAP net income of \$34.0 million, or \$.86 per diluted share, for 2005. GAAP net loss for 2006 includes \$113.9 million of impairment charges, amortization, stock-based compensation, restructuring costs, in-process research and development, and related tax adjustments. Excluding these items, non-GAAP earnings per share were \$1.67 for 2006. GAAP net income for 2005 includes \$58.4 million of amortization, stock-based compensation, restructuring costs, in-process research and development, and related tax adjustments. Excluding these items non-GAAP earnings per share were \$2.34 for 2005.

Use of Non-GAAP Financial Measures

This press release contains "non-GAAP financial measures" under the rules of the Securities and Exchange Commission. This non-GAAP information supplements, and is not intended to represent a measure of performance in accordance with, disclosures required by generally accepted accounting principles, or GAAP. The reconciliation for net income and diluted earnings per share for the fourth quarters of 2006 and 2005 and fiscal years 2006 and 2005 are in the tables attached to this press release.

We use non-GAAP financial measures internally to manage our business, for example, in establishing our annual operating budget, to assess segment operating performance and for measuring performance under our employee incentive compensation plans. Non-GAAP financial measures are used by our management in their operating and financial decision-making because management believes these measures reflect our ongoing business in a manner that allows meaningful period-to-period comparisons. Accordingly, we believe it is useful for our investors and others to review both GAAP and non-GAAP measures in order to (a) understand and evaluate our current operating performance and future prospects in the same manner as management does and (b) compare in a consistent manner the Company's current financial results with our past financial results. The primary limitations associated with our use of non-GAAP financial measures are that these measures may not be directly comparable to the amounts reported by other companies and they do not include all items of income and expense that affect our operations. Our management compensates for these limitations by considering the Company's financial results as determined in accordance with GAAP and by providing a detailed reconciliation of the non-GAAP financial measures to the most directly comparable GAAP measures in this press release.

Conference Call

A conference call to discuss Avid's fourth quarter 2006 financial results will be held today, February 1, 2007, at 5:00 p.m. EST. The call will be open to the public, and can be accessed by dialing (719) 457-2681 and referencing confirmation code 8736424. The call and subsequent replay will also be available on Avid's web site. To listen via this alternative, go to the Investor Relations page under the About Us menu at www.avid.com for complete details prior to the start of the conference call.

The above release is subject to the completion and filing of our Annual Report on Form 10-K. This release includes forward-looking statements, as defined by the Private Securities Litigation Reform Act of 1995, about Avid's performance. There are a number of factors that could cause actual events or results to differ materially from those indicated by such forward-looking statements, such as market acceptance of Avid's existing and new products, Avid's ability to anticipate customer needs, competitive factors, including pricing pressures, delays in product shipments, and the other important events and factors disclosed previously and from time to time in Avid's filings with the U.S. Securities and Exchange Commission. In addition, the forward-looking statements contained herein represent Avid's estimate only as of today and should not be relied upon as representing the company's estimate as of any subsequent date. While Avid may elect to update these forward-looking statements at some point in the future, Avid specifically disclaims any obligation to do so, even if the estimate changes.

About Avid Technology, Inc.

Avid Technology, Inc. is the world leader in digital nonlinear media creation, management, and distribution solutions, enabling film, video, audio, animation, games, and broadcast professionals to work more efficiently, productively, and creatively. For more information about the company's Oscar®, Grammy®, and Emmy® award-winning products and services, please visit: www.avid.com.

© 2007 Avid Technology, Inc. All rights reserved. Avid, Digidesign, Film Composer, Pro Tools|HD and Pro Tools are either registered trademarks or trademarks of Avid Technology, Inc. or its subsidiaries in the United States and/or other countries. Avid received an Oscar statuette representing the 1998 Scientific and Technical Award for the concept, design, and engineering of the Avid® Film Composer® system for motion picture editing. Digidesign, Avid's audio division, received an Oscar statuette representing the 2003 Scientific and Technical Award for the design, development, and implementation of its Pro Tools digital audio workstation. Oscar is a trademark and service mark of the Academy of Motion Picture Arts and Sciences. Emmy is a registered trademark of ATAS/NATAS. Grammy is a trademark of the National Academy of Recording Arts and Sciences, Inc. All other trademarks contained herein are the property of their respective owners.

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

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|--|------------------------------------|------------------|-------------------------------------|------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Net Revenues | | | | |
| Product | \$ 213,405 | \$ 219,812 | \$ 809,002 | \$ 692,787 |
| Service | 25,644 | 25,159 | 101,576 | 82,656 |
| Total net revenues | 239,049 | 244,971 | 910,578 | 775,443 |
| Cost of Revenues | | | | |
| Product | 104,101 | 104,112 | 388,483 | 308,386 |
| Service | 15,123 | 13,590 | 56,218 | 45,274 |
| Amortization of intangible assets | 4,889 | 6,610 | 21,193 | 11,027 |
| Total cost of revenues | 124,113 | 124,312 | 465,894 | 364,687 |
| Gross Profit | 114,936 | 120,659 | 444,684 | 410,756 |
| Operating Expenses | | | | |
| Research and development | 35,000 | 32,109 | 141,363 | 111,334 |
| Marketing and selling | 50,831 | 49,892 | 203,967 | 170,787 |
| General and administrative | 16,239 | 14,186 | 63,250 | 47,147 |
| In-process research and development | — | — | 879 | 32,390 |
| Amortization of intangible assets | 3,520 | 3,465 | 14,460 | 9,194 |
| Impairment of intangible assets | 53,000 | — | 53,000 | — |
| Restructuring charges | 3,167 | 1,158 | 2,613 | 3,155 |
| Total operating expenses | 161,757 | 100,810 | 479,532 | 374,007 |
| Operating income (loss) | (46,821) | 19,849 | (34,848) | 36,749 |
| Interest and other income (expense), net | 1,591 | 1,851 | 7,274 | 5,586 |
| Income (loss) before income taxes | (45,230) | 21,700 | (27,574) | 42,335 |
| Provision for income taxes | 7,335 | 3,275 | 15,353 | 8,355 |
| Net Income (Loss) | <u>\$ (52,565)</u> | <u>\$ 18,425</u> | <u>\$ (42,927)</u> | <u>\$ 33,980</u> |
| Net income (loss) per common share – basic | \$ (1.28) | \$ 0.44 | \$ (1.03) | \$ 0.90 |
| Net income (loss) per common share – diluted | \$ (1.28) | \$ 0.43 | \$ (1.03) | \$ 0.86 |
| Weighted-average common shares outstanding - basic | 41,016 | 41,859 | 41,736 | 37,762 |
| Weighted-average common shares outstanding - diluted | 41,016 | 43,309 | 41,736 | 39,517 |

AVID TECHNOLOGY, INC.
(unaudited - in thousands, except per share data)

Net income (loss) includes the following items that were highlighted in the text of this press release:

| | Three Months Ended | | Twelve Months Ended | |
|--|---------------------------|------------------|----------------------------|------------------|
| | December 31, | | December 31, | |
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| GAAP net income (loss) | \$ (52,565) | \$ 18,425 | \$ (42,927) | \$ 33,980 |
| Adjustments to reconcile Non-GAAP net income: | | | | |
| Amortization of intangible assets | \$ 8,409 | \$ 10,075 | \$ 35,653 | \$ 20,221 |
| Impairment of intangible assets | 53,000 | — | 53,000 | — |
| Stock-based compensation | 3,561 | 333 | 16,605 | 2,163 |
| Restructuring charges | 3,167 | 1,158 | 2,613 | 3,155 |
| In-process research and development | — | — | 879 | 32,390 |
| Related tax adjustments | 6,954 | 61 | 5,197 | 451 |
| Total | <u>\$ 75,091</u> | <u>\$ 11,627</u> | <u>\$ 113,947</u> | <u>\$ 58,380</u> |
| Non-GAAP net income | <u>\$ 22,526</u> | <u>\$ 30,052</u> | <u>\$ 71,020</u> | <u>\$ 92,360</u> |
| Weighted average common shares outstanding - diluted | 41,734 | 43,309 | 42,570 | 39,517 |
| Non-GAAP net income per common share - diluted | \$ 0.54 | \$ 0.69 | \$ 1.67 | \$ 2.34 |

Stock-based compensation, which relates to adoption of SFAS 123R, the acquisition of M-Audio, and the issuance of restricted stock and restricted stock units in Q4 2006 and YTD 2006, is comprised of the following:

| Stock-based compensation included in: | Three Months Ended | | Twelve Months Ended | |
|--|---------------------------|---------------|----------------------------|-----------------|
| | December 31, | | December 31, | |
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| Cost of product revenues | \$ 118 | \$ — | \$ 516 | \$ — |
| Cost of service revenues | 178 | — | 801 | — |
| Research and development expense | 1,028 | 29 | 4,830 | 158 |
| Marketing and selling expense | 1,054 | 110 | 4,692 | 602 |
| General and administrative expense | 1,183 | 194 | 5,766 | 1,403 |
| | <u>\$ 3,561</u> | <u>\$ 333</u> | <u>\$ 16,605</u> | <u>\$ 2,163</u> |

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

| | <u>December 31,</u> <u>2006</u> | <u>December 31,</u> <u>2005</u> |
|--|------------------------------------|------------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash, cash equivalents and marketable securities | \$ 172,107 | \$ 238,430 |
| Accounts receivable, net of allowances of \$22,331 and \$22,233 at December 31, 2006 and 2005, respectively | 138,578 | 140,669 |
| Inventories | 144,238 | 96,845 |
| Prepaid and other current assets | <u>29,016</u> | <u>25,733</u> |
| Total current assets | 483,939 | 501,677 |
| Property and equipment, net | 40,483 | 38,563 |
| Goodwill | 360,143 | 396,902 |
| Intangible assets, net | 102,048 | 118,676 |
| Other assets | <u>10,421</u> | <u>6,228</u> |
| Total assets | <u><u>\$ 997,034</u></u> | <u><u>\$ 1,062,046</u></u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 34,108 | \$ 43,227 |
| Accrued expenses and other current liabilities | 88,331 | 96,311 |
| Deferred revenues | <u>73,743</u> | <u>62,863</u> |
| Total current liabilities | 196,182 | 202,401 |
| Long-term liabilities | <u>20,471</u> | <u>20,048</u> |
| Total liabilities | 216,653 | 222,449 |
| Stockholders' equity: | | |
| Common stock | 423 | 421 |
| Additional paid-in capital | 952,763 | 928,703 |
| Accumulated deficit | (134,708) | (88,795) |
| Treasury stock at cost, net of reissuances | (43,768) | — |
| Deferred compensation | — | (1,830) |
| Accumulated other comprehensive income | <u>5,671</u> | <u>1,098</u> |
| Total stockholders' equity | 780,381 | 839,597 |
| Total liabilities and stockholders' equity | <u><u>\$ 997,034</u></u> | <u><u>\$ 1,062,046</u></u> |