AVG Technologies N.V.
Form 6-K
May 18, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

May 18, 2012

Commission File Number: 001-35408

AVG TECHNOLOGIES N.V.

Gatwickstraat 9-39

1043 GL Amsterdam

The Netherlands

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ¨

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Item

1. AVG Technologies N.V. Unaudited Condensed Consolidated Interim Financial Statements as of March 31, 2012

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Item 1

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AVG TECHNOLOGIES N.V.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of U.S. Dollars except for share data and per share data)

	December 31, 2011	March 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 60,740	$ 107,529
Trade accounts receivable, net	25,363	28,721
Inventories	883	832
Deferred income taxes	18,394	18,394
Prepaid expenses	3,975	4,813
Prepaid share issuance cost	6,820	
Other current assets	6,363	7,547
Total current assets	122,538	167,836
Property and equipment, net	12,436	12,396
Deferred income taxes	59,750	63,864
Intangible assets, net	35,035	37,323
Goodwill	71,367	73,831
Investment in equity affiliate	511	471
Investments	9,750	9,750
Other assets	248	1,176
Total assets	$ 311,635	$ 366,647
LIABILITIES, PREFERRED SHARES AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	$ 11,035	$ 8,434
Accrued compensation and benefits	15,941	16,702
Accrued expenses and other current liabilities	30,878	36,070
Current portion of long-term debt	41,125	23,500
Income taxes payable	4,161	2,215
Deferred revenue	120,269	126,335
Total current liabilities	223,409	213,256
Long-term debt, less current portion	184,315	178,994
Deferred revenue, less current portion	30,839	31,393
Other non-current liabilities	3,397	3,970
Total liabilities	441,960	427,613
Commitments and contingencies (Note 11)		
Class D preferred shares	191,954	
Shareholders deficit:		
Ordinary shares	476	722
Additional paid-in capital (Distributions in excess of capital)	(388,225)	(136,584)
Accumulated other comprehensive loss	(6,324)	(5,250)
Retained earnings	71,794	80,146

Total shareholders deficit		(322,279)		(60,966)
Total liabilities, preferred shares and shareholders deficit	$	311,635	$	366,647

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

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AVG TECHNOLOGIES N.V.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

(Expressed in thousands of U.S. Dollars except for share data and per share data)

	Three Months Ended March 31,	
	2011	2012
Revenue:		
Subscription	$ 43,080	$ 46,630
Platform-derived	17,694	36,355
Total revenue	60,774	82,985
Cost of revenue:		
Subscription	5,833	7,191
Platform-derived	1,381	3,374
Total cost of revenue	7,214	10,565
Gross profit	53,560	72,420
Operating expenses:		
Sales and marketing	16,555	21,016
Research and development	7,459	14,019
General and administrative	6,605	16,339
Total operating expenses	30,619	51,374
Operating income	22,941	21,046
Other income (expense):		
Interest income	3	38
Interest and finance costs	(986)	(5,305)
Other, net	(1,008)	(914)
Other expense, net	(1,991)	(6,181)
Income before income taxes and loss from investment in equity affiliate	20,950	14,865
Provision for income taxes	(2,911)	(3,918)
Loss from investment in equity affiliate	(62)	(40)
Net income	$ 17,977	$ 10,907
Other comprehensive income (loss):		
Foreign currency translation gain (loss)	$ (144)	$ 1,074
Other comprehensive income (loss)	(144)	1,074
Comprehensive income	**$ 17,833**	**$ 11,981**
Net income	$ 17,977	$ 10,907
Preferred share dividends	(1,802)	(753)
Distributed and undistributed earnings to participating securities	(4,048)	

Net income available to ordinary shareholders	basic	$ 12,127	$ 10,154
Net income available to ordinary shareholders	basic	$ 12,127	$ 10,154
Net income available to ordinary shareholders	diluted	$ 12,127	$ 10,907
Earnings per ordinary share	basic	$ 0.34	$ 0.22
Earnings per ordinary share	diluted	$ 0.32	$ 0.21
Weighted-average shares outstanding	basic	36,000,000	46,706,344
Weighted-average shares outstanding	diluted	38,525,303	52,964,620
Cash dividends declared per ordinary share		$ 4.53	$
Cash dividends declared per preferred share		$ 4.68	$ 0.21

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

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AVG TECHNOLOGIES N.V.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF SHAREHOLDERS DEFICIT

(Expressed in thousands of U.S. Dollars except for share data)

	Class D Preferred Shares		Ordinary Shares							
			Class A		Class B1		Class B2		Class E	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balances, January 1, 2012	12,000,000	$ 191,954	16,200,000	$ 212	9,316,224	$ 125	3,283,776	$ 44	7,200,000	$ 95
Net income										
Other comprehensive income:										
Foreign currency translation gain										
Other comprehensive income										
Conversion of preferred shares and Class A, B1, B2 and E shares to ordinary shares	(12,000,000)	(191,954)	(16,200,000)	(212)	(9,316,224)	(125)	(3,283,776)	(44)	(7,200,000)	(95)
Share proceeds										
Share issuance costs (net of income tax benefit of $966)										
Exercise of share options										
Cash dividends declared and paid on preferred shares										
Share-based compensation, net of repurchases and liability awards										
Balances, March 31, 2012		$		$		$		$		$

	Ordinary Shares		Additional Paid-in Capital (Distributions in Excess of Capital)	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders Deficit
	Shares	Amount				
Balances, January 1, 2012		$	$ (388,225)	$ (6,324)	$ 71,794	$(322,279)

Net income					10,907	10,907
Other comprehensive income:						
Foreign currency translation gain				1,074		1,074
Other comprehensive income				1,074		1,074
Conversion of preferred shares and Class A, B1, B2 and E shares to ordinary shares	48,000,000	639	191,791			191,954
Share proceeds	4,000,000	52	63,948			64,000
Share issuance costs (net of income tax benefit of $966)			(11,777)			(11,777)
Exercise of share options	2,382,591	31	5,132			5,163
Cash dividends declared and paid on preferred shares					(2,555)	(2,555)
Share-based compensation, net of repurchases and liability awards			2,547			2,547
Balances, March 31, 2012	54,382,591	$ 722	$ (136,584)	$ (5,250)	$ 80,146	$ (60,966)

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

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AVG TECHNOLOGIES N.V.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Expressed in thousands of U.S. Dollars)

	Three Months Ended March 31,	
	2011	2012
OPERATING ACTIVITIES:		
Net income	$ 17,977	$ 10,907
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,458	4,117
Share-based compensation	668	4,331
Deferred income taxes	1,835	847
Change in the fair value of contingent consideration liabilities	142	152
Amortization of financing costs and loan discount	109	704
Loss from investment in equity affiliate	62	40
Loss (gain) on sale of property and equipment	92	(14)
Net change in assets and liabilities, excluding effects of acquisitions:		
Trade accounts receivable, net	1,978	(2,015)
Inventories	20	65
Accounts payable and accrued liabilities	1,211	651
Accrued compensation and benefits	(1,724)	149
Deferred revenue	6,115	4,050
Income taxes payable	1,544	(1,625)
Other assets	(3,371)	(875)
Other liabilities	253	(884)
Net cash provided by operating activities	29,369	20,600
INVESTING ACTIVITIES:		
Purchase of property and equipment and intangible assets	(2,887)	(1,872)
Proceeds from sale of property and equipment	52	33
Cash payments for acquisitions, net of cash acquired	(3,875)	(3,947)
Net cash used in investing activities	(6,710)	(5,786)
FINANCING ACTIVITIES:		
Payment of contingent consideration	(2,330)	
Proceeds from long-term debt, net of discount	230,285	
Debt issuance costs	(6,506)	
Proceeds from issuance of ordinary shares		64,000
Share issuance costs		(6,970)
Proceeds from exercise of share options		318
Repayment of principal on long-term borrowings	(1,125)	(23,500)
Decrease in restricted cash	1,333	
Dividends paid	(219,232)	(2,555)
Repurchases of share options from employees		(845)
Net cash provided by financing activities	2,425	30,448
Effect of exchange rate fluctuations on cash and cash equivalents	2,166	1,527
Change in cash and cash equivalents	27,250	46,789
Beginning cash and cash equivalents	63,146	60,740
Ending cash and cash equivalents	$ 90,396	$ 107,529

Supplemental cash flow disclosures:		
Income taxes paid	$ 1,936	$ 2,400
Interest paid	$	$ 4,539
Supplemental non-cash disclosures:		
Issuance of ordinary shares on conversion of Class D preferred shares	$	$ 191,954

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

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AVG TECHNOLOGIES N.V.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in thousands of U.S. Dollars except for share data and per share data, unless otherwise stated)

Note 1. Organization and Basis of Presentation and Business

Organization and basis of presentation

The accompanying condensed consolidated interim financial statements include the financial statements of AVG Technologies N.V. and its wholly owned subsidiaries (collectively, the Company, or AVG).

These condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and the applicable rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations.

The accompanying condensed consolidated interim balance sheet as of March 31, 2012, the condensed consolidated interim statements of comprehensive income for the three months ended March 31, 2011 and 2012, the condensed consolidated interim statements of cash flows for the three months ended March 31, 2011 and 2012 and the condensed consolidated interim statement of shareholders deficit for the three months ended March 31, 2012 are unaudited.

The December 31, 2011 condensed consolidated balance sheet included herein was derived from the Company s audited financial statements as of that date, but does not include all disclosures including notes required by U.S. GAAP for complete financial statements. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These condensed consolidated interim financial statements should be read in conjunction with the Company s consolidated financial statements and notes thereto for each of the three years in the period ended December 31, 2011.

The unaudited condensed consolidated interim financial statements have been prepared on the same basis as the Company s audited consolidated financial statements and, in the opinion of management, reflect all adjustments of a normal recurring nature considered necessary to present fairly the Company s financial position as of March 31, 2012 and results of its operations for the three months ended March 31, 2011 and 2012, and cash flows for the three months ended March 31, 2011 and 2012. The interim results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

Business

The Company is primarily engaged in the development and sale of internet security software and online service solutions that are mostly branded under the AVG name.

As of March 31, 2012, AVG Technologies N.V. had the same direct and indirect subsidiaries as described in the Company s audited consolidated financial statements for the financial year ended December 31, 2011 except for the following:

OpenInstall, Inc. incorporated in California, United States.

Note 2. Summary of Significant Accounting Policies

There have been no changes in the Company s significant accounting policies for the three months ended March 31, 2012 as compared to the significant accounting policies described in the Company s audited consolidated financial statements for the financial year ended December 31, 2011.

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Note 3. Acquisitions

2012 acquisitions

Purchase of OpenInstall, Inc.

On January 13, 2012, AVG Technologies USA, Inc. acquired 100% of the outstanding shares of OpenInstall, Inc. (OpenInstall), a technology company based in the United States that provides a cloud-based software installation platform that allows for more efficient distribution of software products, provides related analytics and is complementary to AVG s secure search, performance optimization and other software offerings. The results of operations from the acquired business were included in the Condensed Consolidated Interim Statements of Comprehensive Income from the date of acquisition. Supplemental pro forma information for OpenInstall was not material to the Company s financial results and was therefore not included. The Company recorded acquisition-related transaction costs of $355, which were included in General and administrative expenses.

The net assets acquired in the transaction, and the goodwill arising from it, were provisionally determined as follows:

Net assets[1]	$ 1,225
Intangible assets[2]	3,200
Goodwill[3]	1,224
Total purchase consideration	$ 5,649

(1) Net assets included property and equipment of $19, deferred tax assets of $1,179 and net working capital of $27. The cash acquired in the transaction totaled $102.

(2) Intangible assets included developed technology of $3,200, which is amortized over its estimated useful life of 5 years.

(3) Goodwill is tax deductible. The goodwill resulted primarily from the Company s expectation of synergies from the integration of OpenInstall technology with the Company s existing solutions.

Components of consideration:	
Cash consideration paid	$ 4,049
Deferred purchase consideration[4]	1,600
	$ 5,649

(4) The purchase consideration was deferred for the period of 12 months after the acquisition date.

At the time of acquisition the Company also entered into employment agreements with certain employee shareholders of OpenInstall, which include retention and incentive compensation arrangements for up to $22.5 million of payments contingent upon achieving certain profit targets over three years, with additional compensation consisting of $2.5 million in cash over two years. Such payments are accounted for as compensation expense in the periods earned. During the three months ended March 31, 2012, the Company recorded compensation expense of $633, which was included in Research and development expenses.

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Note 4. Goodwill

The changes in the carrying amount of goodwill are as follows:

	Total
Net balance as of January 1, 2012	$ 71,367
Goodwill acquired through acquisitions[1]	1,224
Effects of foreign currency exchange	1,240
Net balance as of March 31, 2012[2]	$ 73,831

(1) See Note 3 for acquisitions completed in the three months ended March 31, 2012.
(2) There were no accumulated goodwill impairment losses as of March 31, 2012.

As of March 31, 2012, goodwill totaling $35,022 has been pledged as collateral to secure the long term debt (Note 7).

Note 5. Intangible Assets

	December 31, 2011			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Remaining Useful Life
Customer relationships	$ 11,697	$ (3,792)	$ 7,905	4.0 years
Developed technology	24,607	(10,601)	14,006	4.0 years
Software	9,272	(4,623)	4,649	2.5 years
Brand and domain names and other intangibles	9,450	(1,278)	8,172	7.5 years
Indefinite-lived trade names and other intangibles	303		303	Indefinite
Total	$ 55,329	$ (20,294)	$ 35,035	

	March 31, 2012			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Remaining Useful Life
Customer relationships	$ 11,802	$ (4,449)	$ 7,353	4.0 years
Developed technology	28,309	(12,098)	16,211	4.0 years
Software	10,724	(5,424)	5,300	2.0 years
Brand and domain names and other intangibles	9,741	(1,585)	8,156	7.5 years
Indefinite-lived trade names and other intangibles	303		303	Indefinite
Total	$ 60,879	$ (23,556)	$ 37,323	

As of March 31, 2012, intangible assets with a carrying value of $17,343 have been pledged as collateral to secure the long term debt (Note 7).

Amortization expense was $1,258 and $2,644 in the three month period ended March 31, 2011 and 2012, respectively.

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The changes in the carrying amount of intangible assets are as follows:

	Total
Net balance as of January 1, 2012	$ 35,035
Additions	1,023
Acquisitions through business combinations[(1)]	3,200
Amortization charge	(2,644)
Effects of foreign currency exchange	709
Net balance as of March 31, 2012	$ 37,323

(1) See Note 3 for acquisitions completed in the three months ended March 31, 2012.

Total future amortization expense for intangible assets that have definite lives, based upon the Company s existing intangible assets and their current estimated useful lives as of March 31, 2012, is estimated as follows:

Remainder of financial year 2012	$ 7,558
2013	9,200
2014	7,807
2015	5,767
2016	3,759
Thereafter	2,929
Total	$ 37,020

Note 6. Related party transactions

On December 2, 2011, AVG entered into a consultancy agreement with Czech Value Participations I Inc. (CVP1), effective as of February 1, 2011, under which Robert Cohen, a contractor to CVP1, managing partner of Benson Oak Capital and former observer of the Company s supervisory board, advises the Company with respect to corporate development, including mergers and acquisitions policy and activities. Mr. Cohen has certain powers to direct Orangefield Trust B.V., the managing director of Grisoft Holdings B.V., a major shareholder of the Company, on how to vote the shares in AVG held of record by Grisoft Holdings B.V. Under this agreement, the Company pays CVP1 approximately $19 per month plus a service success fee. The total fee, including the service success fee, for services rendered in the three months ended March 31, 2012 was $329 and was recorded in General and administrative expenses. At March 31, 2012, the fee owed to CVP1 amounted to $110 and was included in Accrued expenses and other current liabilities.

Note 7. Debt

Credit facility

On March 15, 2011, the Company entered into a credit agreement with a group of financial institutions (the Credit Facility). The Credit Facility provides a $235 million loan that is unconditionally and irrevocably guaranteed, jointly and severally, by certain AVG Technologies N.V. subsidiaries and is further secured by certain tangible and intangible assets of the Company and its subsidiaries with covenants obliging the Company to pledge new assets over a certain threshold. The Credit Facility bears interest at an adjusted LIBOR rate plus 6.0% with a LIBOR floor of 1.5%. Interest on the loan is payable quarterly in arrears. The Credit Facility contains financial covenants, measured at the end of each quarter, including a covenant to maintain a specified consolidated leverage ratio and interest coverage ratio (as defined in the Credit Facility). Additionally, the Credit Facility contains affirmative covenants, including covenants regarding the payment of taxes, maintenance of insurance, reporting requirements and compliance with applicable laws. The Credit Facility contains negative covenants, among other things, limiting the Company s ability to incur debt, make acquisitions, make certain restricted payments and sell assets. The events of default under the Credit Facility include payment defaults, cross defaults with certain other indebtedness, breaches of covenants, judgment defaults, bankruptcy events

and the occurrence of a change in control (as defined in the Credit Facility). As of March 31, 2012, the Company was in compliance with all required covenants.

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The Credit Facility was fully drawn down with net cash proceeds of $223,754 received after deducting the issuance costs of $11,246, which included an original issue discount, financing arrangement fees and legal fees, and making payments for other direct and incremental costs related to the Credit Facility. The proceeds AVG Technologies N.V. received were used to pay dividends to the Company s shareholders.

In connection with certain amendments made to the Credit Facility, the Company paid fees to the lenders of $423 in 2011. These fees are being amortized as an adjustment of interest expense over the remaining term of the Credit Facility using the interest method.

The amount of long-term debt under the Credit Facility shown in the accompanying Condensed Consolidated Interim Balance Sheet is analyzed as follows:

	March 31, 2012
Principal	$ 235,000
Principal repaid	(23,500)
Unamortized deferred financing costs	(9,006)
Total debt	202,494
Less current portion	(23,500)
Non-current portion	$ 178,994

The Credit Facility terminates on March 15, 2016, on which date all outstanding principal, together with accrued interest, will be due and payable. The Company may prepay any amounts outstanding under the Credit Facility and terminate the Credit Facility at any time, without premium or penalty, subject to reimbursement of certain costs.

Under the Credit Facility, the Company may also elect to request the establishment of one or more new term loan commitments in an aggregate principal amount not in excess of $100,000 (incremental term loan) provided certain conditions and financial covenants are met. Such new commitments are available at the discretion of the lenders. With the exception of the weighted average life to maturity, maturity date and the yield thereof (each of which as defined in the Credit Facility), the terms and the provisions of the incremental loan, if the incremental loan is established in the future, shall be substantially identical to those described above related to the $235,000 loan.

The Credit Facility is secured by certain tangible, intangible, and current assets of the Company with covenants obliging the Company to also pledge new assets over a certain threshold. The collateral granted by the borrower and certain of its subsidiaries includes present and future pledges, mortgages, first priority floating and fixed charges and security interests with respect to, but not limited to, equity rights, shares and related rights (ownership interests), fixed assets, intellectual property rights (trademarks, domains and patents), intercompany and trade receivables, goodwill, bank accounts, insurance claims and commercial claims. In addition to the pledging of goodwill (Note 4) and intangible assets (Note 5), as of March 31, 2012, cash amounting to $100,126, property and equipment with a carrying value of $6,849 and accounts receivable amounting $23,142 have been pledged as collateral to secure the Company s long term debt.

As of March 31, 2012, the mandatory principal payments under the credit facility are as follows:

Remainder of financial year 2012	$ 17,625
2013	23,500
2014	23,500
2015	23,500
2016	123,375
Total	$ 211,500

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Note 8. Fair Value Measurements

The Company measures and reports its derivative instruments and contingent purchase consideration liabilities at fair value. Fair value is defined as an exit price that would be received for the sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy defines a three-level valuation hierarchy for disclosure of fair value measurements as follows:

Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Observable inputs that reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Unobservable inputs reflecting the Company s own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

Assets and liabilities measured and recorded at fair value on a recurring basis

The following table summarizes the Company s assets and liabilities that are measured at fair value on a recurring basis, by level, within the fair value hierarchy:

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Foreign currency contracts [1]	$	$ 161	$	$ 161
Total assets measured at fair value	$	$ 161	$	$ 161
Liabilities:				
Contingent purchase consideration liabilities [2]	$	$	$ 12,835	$ 12,835
Total liabilities measured at fair value	$	$	$ 12,835	$ 12,835

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
Assets				
Foreign currency contracts [1]	$	$ 398	$	$ 398
Total assets measured at fair value	$	$ 398	$	$ 398
Liabilities:				
Contingent purchase consideration liabilities [2]	$	$	$ 13,319	$ 13,319
Total liabilities measured at fair value	$	$	$ 13,319	$ 13,319

(1) Contract fair values are determined based on quoted prices for similar assets in active markets using inputs such as currency rates and forward points.

(2) The fair values of the contingent purchase consideration liabilities were determined for each arrangement individually. The fair value is determined using the income approach with significant inputs that are not observable in the market. Key assumptions include discount rates consistent with the level of risk of achievement and probability adjusted financial projections. The expected outcomes are recorded at net present value, which requires adjustment over the life of the instruments for changes in risks and probabilities.

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The following table sets forth a summary of changes in the value of the Company s Level 3 financial liabilities:

	Three Months Ended March 31,	
	2011	2012
Fair value - beginning of period	$ 3,159	$ 12,835
Additions due to acquisitions	1,585	
Change in fair value of Level 3 liabilities [(3)]	142	152
Effects of foreign currency exchange	29	332
Payments of contingent consideration	(1,275)	
Fair value - end of period	$ 3,640	$ 13,319

(3) The change in fair value of the contingent purchase consideration liabilities, which was included in General and administrative expenses, is due to the passage of time and changes in the probability of achievement used to develop the estimate.

The carrying amounts of cash and cash equivalents, trade accounts receivable and accounts payable reported in the Condensed Consolidated Interim Balance Sheet approximate their respective fair values because of the short term nature of these accounts. The fair value of the Company s investment in Scene as of March 31, 2012 was estimated at $9,750. The Company classified its investment in Scene as Level 3, as unobservable inputs that were significant to the fair value measurement were used in the valuation of the investment. The fair value of the investment was determined using the market approach which includes the use of multiples of earnings derived from comparable software companies to Scene. The valuation also takes into account other variables such as Scene s capital structure, terms of the investment including put and call options. The fair value of long-term debt as of March 31, 2012 was $203,375 as compared to its carrying amount of $202,494 (Note 7). The fair value of long-term debt was estimated through Level 2 of the fair value hierarchy using a discounted cash flow model, based on the rates currently available for debt with similar terms and remaining maturities.

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Note 9. Consolidated Balance Sheet Detail

Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	December 31, 2011	March 31, 2012
Accrued legal and professional fees	$ 4,707	$ 4,631
Accrued marketing	2,552	3,328
Accrued communication services	514	479
Accrued rent and service costs	671	860
Accrued license fees	908	1,673
Accrued interest	832	833
Accrued sale commissions, rebates and discounts	2,006	2,094
Accrued customer support fees	910	1,181
Accrued electronic sales provider fees	336	415
Other accrued expenses	1,799	2,280
VAT liability	1,126	1,710
Deferred purchase consideration	1,911	3,511
Contingent purchase consideration	12,606	13,075
Total accrued expenses and other current liabilities	$ 30,878	$ 36,070

Note 10. Other Income (Expense), Net

Other income (expense), net is comprised of the following:

	Three Months Ended March 31, 2011	2012
Interest income	$ 3	$ 38
Interest on long-term debt	$ (837)	$ (4,539)
Amortization of financing costs and loan discount	(109)	(704)
Bank charges and other finance costs	(40)	(62)
Interest and finance costs	$ (986)	$ (5,305)
Foreign currency exchange transaction losses, net	$ (1,425)	$ (1,132)
Foreign currency contract gains	415	218
Other, net	2	
Total other income (expense), net	$ (1,991)	$ (6,181)

Note 11. Commitments and Contingencies

Lease commitments

The Company leases its facilities and certain equipment under operating leases that expire at various dates through 2022. Some of the leases contain renewal options, escalation clauses, rent concessions, and leasehold improvement incentives. Rent expense is recognized on a straight-line basis over the lease term. Rent expense was $728 and $1,380 in three months ended March 31, 2011 and 2012, respectively.

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The following is a schedule by years of minimum future rentals on non-cancelable operating leases as of March 31, 2012:

Remainder of financial year 2012	$ 4,584
2013	3,972
2014	3,904
2015	1,885
2016	1,337
Thereafter	4,157
Total minimum future lease payments	$ 19,839

Purchase obligations

The Company has purchase obligations that are associated with agreements for purchases of goods or services. Management believes that cancellation of these contracts is unlikely and thus the Company expects to make future cash payments according to the contract terms.

The following is a schedule by years of purchase obligations as of March 31, 2012:

Remainder of financial year 2012	$ 2,790
2013	191
2014	3
2015	3
2016	1
Total minimum future purchase obligations	$ 2,988

Other Commitments

In connection with the Company s business combinations, the Company has agreed to pay certain additional amounts contingent upon the achievement of certain revenue targets and other milestones or upon the continued employment with the Company of certain employees of the acquired entities. The Company recognized such compensation expense of $234 and $1,098 during three months ended March 31, 2011 and 2012, respectively. As of March 31, 2012, the Company estimated that future compensation expense and contingent payments of up to $8,864 may be recognized in the Statement of Comprehensive Income pursuant to these business combination agreements.

Litigation contingencies

The Company is involved in legal proceedings and claims in the ordinary course of business. While the outcome of these matters is currently not determinable, the final resolution of these lawsuits, individually or in the aggregate, is not expected to have a material adverse effect on the Company s financial condition or results of operations.

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Note 12. Geographic and Major Customer Information

The Company operates in one reportable segment. Revenues are attributed to countries based on the location of the Company s channel partners as well as direct customers of the Company.

The following table represents revenue attributed to countries based on the location of the customer:

	Three Months Ended March 31,	
	2011	2012
Revenue:		
United States	$ 35,496	$ 43,171
United Kingdom	9,404	13,781
Other foreign countries [(1)]	15,874	26,033
Total	$ 60,774	$ 82,985

(1) No individual country represented more than 10% of the respective totals.

The following table represents revenue attributed to regions based on the location of the customer:

	Three Months Ended March 31,	
	2011	2012
Revenue:		
Americas	$ 38,704	$ 48,389
EMEA	19,088	30,028
Asia Pacific	2,982	4,568
Total	$ 60,774	$ 82,985

The table below lists the Company s property and equipment, net of accumulated depreciation, by country.

	December 31, 2011	March 31, 2012
Property and equipment:		
Czech Republic	$ 7,385	$ 7,264
United States	2,874	2,659
Other foreign countries[(1)]	2,177	2,473
Total	$ 12,436	$ 12,396

(1) No individual country represented more than 10% of the respective totals.

The table below lists the Company s property and equipment, net of accumulated depreciation, by region.

	December 31, 2011	March 31, 2012
Property and equipment:		
Americas	$ 2,874	$ 2,659
EMEA	9,462	9,624
Asia Pacific	100	113
Total	$ 12,436	$ 12,396

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Significant customers

Revenues in the three months ended March 31, 2011 and 2012 included revenues derived from significant business partners as follows (in percentages of total revenue):

	Three Months Ended March 31,	
	2011	2012
Business partner :		
A	17%	
B	10%	41%

Note 13. Ordinary and Preferred Shares

Ordinary shares

The Company s authorized, issued and outstanding ordinary shares consist of the following:

	December 31, 2011		
	Shares Authorized	Shares Issued and Outstanding	Par value
Class A shares (Class A shares)	50,437,500	16,200,000	$ 212
Class B1 shares (Class B1 shares)	37,828,125	9,316,224	125
Class B2 shares (Class B2 shares)	12,609,375	3,283,776	44
Class C shares (Class C shares)	11,250,000		
Class E shares (Class E shares)	50,437,500	7,200,000	95
Ordinary shares	50,437,500		
Total	213,000,000	36,000,000	$ 476

	March 31, 2012		
	Shares Authorized	Shares Issued and Outstanding	Par value
Ordinary shares	120,000,000	54,382,591	$ 722
Total	120,000,000	54,382,591	$ 722

Preferred shares

As of December 31, 2011, the Company classified its 12,000,000 Class D preferred shares outside of shareholders equity (deficit) because the shares contained certain redemption features that were not solely within the Company s control. The 12,000,000 Class D preferred shares were converted into 12,000,000 ordinary shares upon the closing of the Company s initial public offering as described below.

The Company s authorized, issued and outstanding preferred shares consist of the following:

	December 31, 2011		
	Shares Authorized	Shares Issued and Outstanding	Carrying value

Class D preferred shares	12,000,000	12,000,000	$ 191,954
Total	12,000,000	12,000,000	$ 191,954

		March 31, 2012	
	Shares Authorized	Shares Issued and Outstanding	Carrying value
Preferred shares	120,000,000		$
Total	120,000,000		$

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Initial public offering

AVG publicly filed its initial Form F-1 with the SEC on January 13, 2012 and on February 7, 2012 closed its initial public offering of 8,000,000 ordinary shares at an offering price of $16.00 per share. AVG offered 4,000,000 ordinary shares and the selling shareholders offered 4,000,000 ordinary shares. AVG did not receive any proceeds from the sale of the ordinary shares by the selling shareholders other than the proceeds from options which were exercised by certain selling shareholders in connection with the initial public offering. The initial public offering resulted in net proceeds to AVG of $52,223, after deducting underwriting discounts, commissions and offering expenses paid by AVG. The right that was granted to the underwriters to purchase up to 1,200,000 ordinary shares from certain of the selling shareholders within 30 days of the initial public offering to cover over-allotments was not exercised.

Costs of $11,777 directly associated with the initial public offering have been recorded as a reduction of the proceeds received in determining the amount to be recorded in additional paid-in capital. These costs were capitalized and recorded as prepaid share issuance cost prior to the closing of the initial public offering.

On February 7, 2012, upon the closing of the initial public offering, the Company s Articles of Association were amended and restated in their entirety. As a result of this amendment, the authorized capital of the Company changed to Euro 2,400,000 (prior to the amendment Euro 2,250,000). The authorized capital is comprised of 240,000,000 shares with a nominal value of Euro 0.01 per share and is divided into 120,000,000 ordinary shares and 120,000,000 preferred shares.

Upon the closing of the initial public offering, class A, B1, B2 and E shares were automatically converted into 36,000,000 ordinary shares with all special rights associated with the existing classes of shares ceasing to be applicable. Class D preferred shares were converted into 12,000,000 ordinary shares, with all special rights associated with Class D preferred shares ceasing to be applicable. In connection with this conversion, the accrued and unpaid dividends on Class D preferred shares of $2,555 were paid in cash. The Class D preferred shares carrying value was reclassified from the mezzanine section of the balance sheet to shareholders deficit.

On February 7, 2012, the Company issued 2,382,591 ordinary shares as a result of the exercise of the same number of share options.

Note 14. Share-Based Compensation

The following table sets forth the total share-based compensation expense under the 2009 Option Plan as amended and the share-based compensation expense related to the shares of AVG that the former owners of TuneUp Software GmbH (TuneUp), a company acquired by AVG in 2011, will receive subject to their continued employment with the Company and other vesting conditions recognized in the Condensed Consolidated Interim Statements of Comprehensive Income.

	Three Months Ended March 31,	
	2011	2012
Cost of revenue	$ 6	$ 8
Sales and marketing	720	592
Research and development	425	688
General and administrative	(483)	3,043
Total	$ 668	$ 4,331

Share options

Compensation costs related to employee share option grants are based on the fair value of the options on the date of grant, net of estimated forfeitures. Management estimates the forfeiture rate based on analysis of actual forfeitures and management will continue to evaluate the adequacy of the forfeiture rate based on actual forfeiture experience. The impact from a forfeiture rate adjustment will be recognized in full in the period of adjustment, and if the actual number of future forfeitures differs from that estimated by management, the Company may be required to record adjustments to share-based compensation expense in future periods. Compensation costs on share based awards with graded vesting are recognized on an accelerated basis as though each separately vesting portion of the award was, in substance, a separate award.

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As of March 31, 2012, total compensation cost related to unvested share options granted to employees not yet recognized was $11,223 net of estimated forfeitures. This cost will be amortized to expense over a weighted average remaining period of 1.90 years and will be adjusted for subsequent changes in estimated forfeitures.

The following table summarizes the options granted in the three months ended March 31, 2012, with their exercise prices, the fair value of ordinary shares as of the applicable grant date, and the intrinsic value, if any:

Grant Date	Number of Options Granted	Exercise Price	Ordinary Shares Fair Value Per Share at Grant Date	Intrinsic Value
January 10, 2012	226,667	$ 23.50	$ 23.50	$
February 7, 2012	1,340,684	$ 16.00	$ 16.00	$

The weighted-average grant date fair value (per share) was $5.62 and total value granted $8,816. On February 7, 2012, 2,382,591 share options were exercised and 137,333 share options were repurchased. During the three months ended March 31, 2012, 4,100 share options were forfeited.

Shares issuable to TuneUp former owners

As part of the acquisition of TuneUp, the former owners of TuneUp will receive shares of AVG with a total value of Euro 11.5 million subject to their continued employment with the Company and other vesting conditions. The Company recognizes the expense relating to these shares over a four-year vesting period. During the three months ended March 31, 2012, the Company recognized compensation expense of $1,962, which was included in General and administrative expenses. As of March 31, 2012, total unrecognized share-based compensation expense relating to the unvested shares was $10,356. This amount is expected to be recognized over a remaining period of 3.4 years.

Note 15. Income Taxes

Income taxes for the three month periods ended March 31, 2011 and March 31, 2012 have been determined by applying the effective tax rate for the year estimated as of the balance sheet date to the pre-tax result for the period, in accordance with guidance set out in ASC 740-270, Interim Reporting - Income Taxes . Based on current tax laws and expected operating results for the full fiscal year, the Company s forecasted annual effective tax rate for 2012 is 17.7 percent. Unusual and/or infrequent items which may cause significant variations in the customary relationship between income tax expense and income before income taxes are not included in the estimated effective tax rate and are accounted for separately in the period in which they occur.

The Company s forecasted annual effective tax rate continues to be lower than the statutory tax rate in the Netherlands primarily as a result of favorable tax rates in foreign jurisdictions as well as favorable tax rates agreed with the Dutch tax authorities for the Company s operations in the Netherlands.

The Company recorded income tax expense of $2,911 (13.9 percent effective tax rate) and $3,918 (26.4 percent effective tax rate) during the three months ended March 31, 2011 and 2012, respectively.

The primary reason for the difference in the effective tax rates in the three months ended March 31, 2011 and 2012 is due to income earned in lower tax jurisdictions during the three months ended March 31, 2011, an unfavorable prior period adjustment of $822 during the three months ended March 31, 2012, and increase in valuation allowance in Hong Kong of $206 during the three months ended March 31, 2012 as the Company no longer believes that it is more likely than not to realize the benefits of its net operating losses in Hong Kong.

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Note 16. Earnings Per Share

For the three month ended March 31, 2011, the Company applied the two-class method when computing its earnings per share, which requires that net income per share for each class of share (ordinary shares and preferred shares) be calculated assuming 100% of the Company s net income is distributed as dividends to each class of share based on their contractual rights. Class D Preferred shareholders had the right to participate with ordinary shareholders in dividends and unallocated income.

In accordance with ASC 260 Earnings Per Share , basic earnings available to ordinary shareholders per share is computed based on the weighted average number of ordinary shares outstanding during each period. Diluted earnings available to ordinary shareholders per share is computed based on the weighted average number of ordinary shares outstanding during each period, plus potential ordinary shares considered outstanding during the period, as long as the inclusion of such shares is not anti-dilutive. Potential ordinary shares consist of the incremental ordinary shares issuable upon the exercise of share options (using the treasury shares method), incremental shares issuable upon subscription of AVG shares by TuneUp former owners (using the treasury shares method) and ordinary shares issuable upon the conversion of the Company s Class D preferred shares to ordinary shares (using the if-converted method).

The following table sets forth the computation of basic and diluted earnings per ordinary share:

	Three Months Ended March 31,	
	2011	2012
Numerator:		
Net income	$ 17,977	$ 10,907
Preferred share dividends	(1,802)	(753)
Distributed and undistributed earnings to participating securities	(4,048)	
Net income available to ordinary shareholders - basic	$ 12,127	$ 10,154
Preferred share dividends		753
Net income available to ordinary shareholders - diluted	$ 12,127	$ 10,907
Denominator:		
Weighted-average ordinary shares outstanding basic	36,000,000	46,706,344
Potential ordinary shares	2,525,303	6,258,276
Weighted-average ordinary shares outstanding diluted	38,525,303	52,964,620
Earnings per ordinary share basic	$ 0.34	$ 0.22
Earnings per ordinary share diluted	$ 0.32	$ 0.21

The following securities that could potentially dilute basic earnings per share in the future have been excluded from the above computation of earnings per share as their inclusion would have been anti-dilutive.

	Three Months Ended March 31,	
	2011	2012
Class D preferred shares	12,000,000	
Options to purchase ordinary shares	228,308	1,001,768
Anti-dilutive shares	12,228,308	1,001,768

Note 17. Subsequent Events

Since March 31, 2012, the Company has granted 298,000 share options to employees at a weighted average exercise price of $14.23 per share option. Each share option converts into one ordinary share of AVG Technologies N.V. on exercise.

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Signatures

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.

AVG TECHNOLOGIES N.V.

Date: May 18, 2012

By: /s/ John Little
Name: John Little
Title: Chief Financial Officer and Managing Director