AVID TECHNOLOGY INC
Form 10-K
February 29, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2007

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

For the transition period from __________ to __________

Commission File Number: 0-21174

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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.)

Avid Technology Park, One Park West

Tewksbury, Massachusetts 01876

(Address of Principal Executive Offices, Including Zip Code)

(978) 640-6789

(Registrant s Telephone Number, Including Area Code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on which registered
Common Stock, $.01 Par Value	NASDAQ Global Select Market

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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. Yesx No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 x	Accelerated Filer o
Non-accelerated Filer o (Do not check if smaller reporting company)	Smaller Reporting Company o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $1,433,896,005 based on the closing price of the Common Stock on the NASDAQ National Market on June 29, 2007. The number of shares outstanding of the registrant s Common Stock as of February 27, 2008 was 37,959,750.

Documents Incorporated by Reference

Document Description	10-K Part
Portions of the Registrant s Proxy Statement for the 2008 Annual Meeting of Stockholders	III

AVID TECHNOLOGY, INC.

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

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This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and Section 27A of the Securities Act of 1933, as amended. For this purpose, any statements contained herein regarding our strategy, future plans or operations, financial position, future revenues, projected costs, prospects and objectives of management, other than statements of historical facts, may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, plans, expects and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We cannot guarantee that we actually will achieve the plans, intentions or expectations expressed or implied in forward-looking statements. There are a number of factors that could cause actual events or results to differ materially from those indicated or implied by such forward-looking statements, many of which are beyond our control, including the risk factors discussed in Part I - Item 1A of this report. In addition, the forward-looking statements contained herein represent our estimates only as of the date of this filing and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, whether to reflect actual results, changes in assumptions, changes in other factors affecting such forward-looking statements or otherwise.

The information included under the heading Performance Graph in Item 5 of this Annual Report on Form 10-K is furnished and not filed and shall not be deemed to be soliciting material or subject to Regulation 14A, shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (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, as amended, or the Exchange Act.

PART I

ITEM 1. BUSINESS

OVERVIEW

We develop, market, sell and support a wide range of software and hardware products for the production, management and distribution of digital media content. Our products empower users, from the home hobbyist to film studios and media-production companies, to realize their creative vision, whether they aspire to edit blockbuster feature films, write and record hit songs, or design animated characters for games or movies. Our technology also improves customer workflows by enabling collaboration, streamlining processes and securely managing digital assets and allows users to distribute media over multiple platforms, including airwaves, cable and the Internet.

In order to serve the needs of our customers, we are organized into strategic business units that reflect the principal markets into which our products are sold: Professional Video, Audio and Consumer Video. These business units also reflect our reportable segments and collectively encompass seven brands: Avid Video, Digidesign, M-Audio, Pinnacle, Sibelius, Softimage and Sundance Digital. For more segment and geographic information, including revenue from customers, a measure of profit or loss and total assets for each of the last three years, see our consolidated financial statements included in this annual report of Form 10-K, including Note O thereto. The following is an overview of the business units and the markets they serve.

Professional Video. This business unit offers innovative solutions including video- and film-editing systems, integrated storage, workflow and asset management tools, 3D and special-effects software and a comprehensive range of services, from product support and training to consultancy and managed services. We market these solutions under the brand names Avid Video, Softimage and Sundance Digital to a broad range of professional users, broadcast and cable companies, corporations, governmental entities and educational institutions. Professional users include production and post-production companies that produce feature films, music videos, commercials, entertainment programs, documentaries and industrial videos, as well as professional animators, video-game developers and film studios. Our broadcast and cable customers include national and international broadcasters, such as the National Broadcasting Company, Reuters, CBS News, Fox Television, the British Broadcasting Corporation, DirectTV and Comcast networks including E!, the Golf Channel and Versus, as well as network affiliates, local independent television stations, web news providers and local and regional cable operators.

Audio. Under the Digidesign, M-Audio and Sibelius brand names, this business unit offers solutions for audio creation, mixing, post-production, collaboration, distribution and scoring to a range of users from home studio novices to award-winning, multi-platinum recording artists. We also sell our solutions to professional music studios, project studios, film and television production and post-production facilities, television and radio broadcasters, new media production studios (for example, creators of DVD and web content), performance venues, corporations, governmental entities and educational institutions. Customers use our audio products and solutions for a wide variety of tasks in both studio and live environments, including recording, editing, mixing, processing, mastering, composing and performing.

Consumer Video. This business unit markets, under the Pinnacle brand name, video-editing and digital lifestyle products to the home user who wants to create, edit, share, publish and view video content easily, creatively and effectively. This segment's two vertical markets consist of home video editing and TV-over-PC viewing. The home video-editing market includes novice and advanced home video editors, as well as corporations, governmental entities and educational institutions. Our home video-editing solutions are used by more than 10 million customers who want to edit, enhance and preserve their videos and share those videos on DVD or over the Internet. The TV-over-PC viewing market includes virtually any consumer who wants to watch and record television programming on a personal computer. With the emergence of digital television, we are now selling approximately one million TV-over-PC viewing solutions a year.

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STRATEGY

Our strategy consists of four key elements: deliver best-of-breed products; deliver an integrated workflow for customers with multiple systems; support open standards for media; and deliver excellent customer service.

Deliver Best-of-Breed Products to Content Creators for Stand-Alone or Integrated Use.

We focus on markets where media is digitally created, edited, stored, managed and distributed. Each of our business units develops best-of-breed products for stand-alone or integrated use. These products fall into three main categories:

Content Creation products used for making media, including our professional and consumer video- and audio-editing tools, compositing and graphics systems, animation solutions and audio-mixing consoles.

Content Management and Storage products used for storing, sharing, managing, searching, archiving, encoding or transcoding digital media files, as well as systems used for automating production tasks.

Content Distribution products that enable users to move digital media files over terrestrial, satellite and cable broadcast networks, as well as LAN, WAN and wireless networks.

Achieving best-in-breed status requires staying ahead of the market. To support our strategy and enable our company and customers to benefit from important industry trends, including the move to HD television production, the switch to all-digital broadcast production, the growth of home audio studios, the move to digital audio mixing in both studio and live environments, and the growth of consumer video editing and consumption, we continue to focus on strategically enhancing and broadening our product offerings either through internal development or acquisitions.

Deliver an Integrated Workflow for Customers Who Work with Multiple Systems or within Multiple-Media Disciplines.

We continue to invest significant resources to enhance the interoperability of our broad array of products and are committed to delivering integrated solutions. For example, our Avid Unity ISIS network-based collaborative workgroups enable many of our Professional Video and Audio products to connect to one another to seamlessly share storage and metadata. Powered by Interplay, this collaborative production environment promotes the sharing of media-production assets and information about the media, or metadata, in a seamless workflow that encompasses all the disciplines in content creation acquisition, editing, image manipulation, graphics, audio, mastering, encoding and distribution. An Avid Unity for News solution can facilitate all the tasks required to create news stories for broadcast by leveraging the aggregate power of our tools. The entire process, including capturing news feeds; managing scripts and sound tracks; editing video, audio and graphics; delivering the finished product to a video server for playback; automated repurposing of the story for web distribution; and streaming the repurposed content to the consumer, can be accomplished seamlessly by an array of our products working together, connected in an Avid Unity workgroup.

Support Open Standards for Media, Metadata and Application Programming Interfaces (APIs).

Because collaboration and interoperability are important to our customers, we seek to design all of our products so that they support a variety of established industry-wide standards, including computer platforms, operating systems, networking protocols, data compression and digital media handling formats. We are a leader in defining and developing industry standards, including Advanced Authoring Format, or AAF, a multimedia file format that enables content creators to exchange digital media and metadata across platforms and between systems and applications. AAF saves time, simplifies project management and preserves valuable metadata. We also offer a patented high-definition, or HD, encoding format, known as Avid DNxHD, which is the first codec compliant with the new SMPTE (Society of Motion Picture and Television Engineers) VC-3 standard. DNxHD enables customers to transfer and store HD content with the same storage bandwidth and capacity requirements as uncompressed standard-definition, or SD, files. Although the size of Avid DNxHD files is similar to SD files, the quality of the original HD image is preserved. The source code for Avid DNxHD technology is licensable free-of-charge on our website, for users to compile, without modifications, on any platform. We also license Avid DNxHD for a fee to parties who enhance and distribute the source code as part of their products. Our workflow solutions also interchange data with external systems by supporting a comprehensive set of application programming interfaces, or APIs, including the Avid Interplay Web Services interface.

Deliver Excellent Customer Service, Support and Training.

In order to succeed, we must provide experienced, accessible and knowledgeable customer service. We strive to create a culture at Avid that encourages every employee to focus on providing exceptional customer service. We seek to train our service personnel on a broad range of applications, operating systems and storage and networking solutions to enable them to meet our customers' diverse needs and requirements. Our staff of consultants and technicians provides media industry professional and installation services, as well as technical support, and we offer technical training throughout the world through a network of experienced educational specialists. In addition, we train our global resellers to deliver application and hardware support directly to end users.

To help us achieve our strategic goals, we have over the past several years acquired many companies:

- Medea Corporation, Sibelius Software Limited, and Sundance Digital, Inc. in 2006;
- Pinnacle Systems Inc. and Wizoo Sound Design GmbH in 2005; and
- Midiman, Inc., d/b/a M-Audio, in 2004.

PRODUCTS

The following section describes the core products within each of our business units, which are also our reportable segments. Information about our reportable segments, including total revenues, operating income and total assets, as well as a geographic breakdown of our revenues and long-lived assets, can be found in Footnote O to our Consolidated Financial Statements in Item 8.

PROFESSIONAL VIDEO

Our Professional Video segment markets products under the Avid Video, Softimage and Sundance Digital brand names. The product categories discussed below may include products marketed under more than one brand.

Video and Film Editing and Finishing

Media Composer Family

This group of digital nonlinear editing products includes Media Composer with Avid Mojo SDI and Media Composer Adrenaline systems, as well as Media Composer software. These products are widely used during the offline editing stage in the creation of prime-time television programs, commercials and films, during which editors assemble storylines by cutting different scenes together in sequential order. This product family accounted for approximately 8%, 9% and 12% of our consolidated net revenues in 2007, 2006 and 2005, respectively.

Avid Xpress Family

The Avid Xpress family is made up of portable software-based editing systems that run on Macintosh and Windows computers and includes the Avid Xpress Pro and Avid Xpress Studio systems. All Avid Xpress Pro solutions can be enhanced with Avid Mojo or Avid Mojo SDI hardware accelerators to perform the compression and decompression of video signals, as well as other tasks, freeing up host-computer processing for other video operations. The Avid Xpress family is designed to meet the needs of independent media professionals, video and film educators, Internet video developers and others involved with video and multimedia production.

Avid DS and Symphony Nitris Family

Many professionals who use our Media Composer products to create feature films, television programs, commercials and music videos also use the Avid Symphony Nitris, Avid DS Nitris and Avid DS Assist systems during the online or finishing stage, during which editors and specialists work with high resolution media files to augment the storyline with graphics, special effects, colorgrading and other sophisticated visual enhancements. These real-time, uncompressed HD and SD solutions provide an environment for high-quality finishing and mastering.

Storage & Workgroups

Avid Unity Media Network Family

Our shared media networks offer collaborative workflows that support a wide range of digital video SD and HD formats, including the Avid DNxHD format. This product line includes the enterprise level Avid Unity ISIS (Infinitely Scalable Intelligent Storage) system, which provides high scalability and availability based on industry-standard gigabit ethernet networking; the 4-gigabit fibre channel-based Avid Unity MediaNetwork for high performance in facility-class environments; and the Avid Unity LANshare system for smaller broadcast operations and post-production customers. This product family accounted for approximately 10% of our consolidated net revenues in each of 2007, 2006 and 2005.

Avid Interplay Family

Avid Interplay workgroup tools bring together creative, production and business processes by fusing integrated asset management, workflow automation and security control into a single system that delivers a business-wide workflow for post-production and broadcast settings of any size. The flexible set of Avid Interplay components and services paired with the Avid Interplay nonlinear workflow engine streamline collaboration by automating complex workflow processes so that users can focus on creating compelling content rather than spending time to manually address labor-intensive production tasks.

Broadcast

Avid production, newsroom, on-air graphics, play-to-air and automation device control solutions are designed to help broadcasters accelerate the production process; research, create, manage and deliver television news programs; develop and deliver real-time graphics for broadcast television; and manage, control and play back television programming.

3D Graphics and Animation

Our Softimage character and face animation solutions meet the needs of the most demanding 3D production environments, including next-generation, 3D game pipelines and state-of-the-art VFX and film studios. The Softimage Alienbrain Studio software is a multi-user file and asset management solution that allows 3D professionals to import, manage and share any kind of file, monitor the health of their database systems and control access in a collaborative environment, facilitating improved productivity for game creation and other complex workflows.

Support, Service, Training & Consulting

Avid Support is our maintenance support offering for our Professional Video products. Avid Support provides software and application support to meet the product maintenance needs of our customers, including isolating hardware issues, resolving software issues, providing software upgrades and generally helping our customers utilize their applications fully. In addition to Avid Support, we provide installation services for our products and media-industry consulting services for the planning, integration and operation of our customers systems. We also offer a variety of training programs at sites around the globe and over the Internet.

AUDIO

Our Audio segment markets products under the Digidesign, M-Audio and Sibelius brand names. The product categories discussed below may include products marketed under more than one brand.

Professional Audio

Pro Tools Digital Audio Workstation

Pro Tools is a multi-track, non-linear digital audio workstation comprising a variety of hardware options and bundled software that runs on Macintosh and Windows platforms. Pro Tools workstations provide solutions for the entire audio production process, including recording, editing, signal processing, sound synthesis, integrated surround mixing and mastering, and reference video playback. Pro Tools users work in the professional or aspiring professional music, film, television, radio, multimedia, DVD and Internet production markets. Pro Tools systems support a rich third-party development environment, with more than 100 development partners providing a variety of additional software and hardware add-on options.

Digidesign Pro Tools systems are offered in a variety of price points and configurations, ranging from Pro Tools|HD systems for professional music and post-production environments, to the affordable Mbox 2 and 003 product families for home production studios. The hardware offerings of these product lines are typically bundled with industry-standard Pro Tools software, but can also run third-party software applications. Customers can choose to use Pro Tools with a wide range of audio peripherals, including a variety of mixing control surfaces such as our newly introduced C|24 or those from our ICON family, and our post-production Pro Tools customers can choose a qualified Avid Video peripheral to provide reference video recording and playback.

The Pro Tools product family accounted for approximately 15%, 15% and 18% of our consolidated net revenues in 2007, 2006 and 2005, respectively.

ICON Control Surfaces

In the large-format digital mixing console category, the Digidesign ICON (Integrated Console System) system features the D-Control and D-Command mixing surfaces, our high-end, expandable hardware control surfaces for tactile control of Pro Tools software and hardware. ICON systems can be customized to fit any studio, providing from 16 to 80 channels of simultaneous control.

Live Sound

VENUE Mixing Consoles

The VENUE product family includes products for mixing sound at live concert and theater performances, and other public address events. VENUE systems can be interconnected with Pro Tools systems to make live recordings. They also offer the ability to run Digidesign and third-party signal and effects processing software plug-ins. In keeping with our strategy of delivering superior integration, we continued to extend the hardware interface options and software capabilities of this product line in 2007. A VENUE console was used by four of the top eight highest-grossing concert tours in North America during 2007.

Aspiring Professional and Home Studio Audio

We offer a number of product lines specifically designed to meet the price-sensitive needs of a range of aspiring music industry users, including the home hobbyist with a personal home studio and the up-and-coming professional. Our Digidesign Pro Tools LE family of audio interfaces and M-Audio family of digital audio and ancillary hardware and software solutions enable electronic musicians and home enthusiasts to manage the production of their own material from creation and recording to the editing, processing and mixing required to produce the final result.

Audio Interfaces

Our M-Audio interfaces dovetail with the Digidesign Pro Tools LE product line, allowing users to get high-quality sound in and out of a computer at affordable prices. Users can create audio recordings on their personal computers using optional Pro Tools M-Powered software or with third-party software. We continued to expand the software and interface capabilities of this product family in 2007, including the addition of compatibility with newer technologies such as USB 2.0.

Keyboards

Our M-Audio USB, FireWire and wireless keyboards allow users to send MIDI messages directly to a personal computer, access sound-creation software and control a variety of other musical functions without the need for additional MIDI interface peripherals. A line of M-Audio sound-producing keyboards was introduced during 2007. This line includes the KeyStudio 49i, a combination controller, audio interface and digital piano.

Speakers, Microphones, Mixers and Add-On Software

We offer a variety of in-ear reference earphone monitors and self-powered monitor speakers that provide stereo or multi-channel surround monitoring aimed at the recording studio, home music hobbyist, personal computer, gaming and home-theater markets. Under the M-Audio brand name, we also offer condenser and dynamic microphones and the recently introduced the NRV10, a desktop analog mixing console with built-in audio interface capability. We also distribute a selection of third-party software product lines that allow customers to purchase complete home recording packages from a single supplier.

Notation Products

Our Sibelius software allows written musical scores to be created, edited and published electronically and is used by composers, arrangers and other media professionals. We also offer student versions of the Sibelius notation software to assist in the teaching of music composition and score writing.

CONSUMER VIDEO

Our Consumer Video segment markets products under the Pinnacle brand name.

Home Video-Editing and Capture Products

Our consumer video-editing and capture products offer a wide range of features that streamline the three-step capture, enhance and share process. For example, consumers can drag and drop clips to create video sequences in the order they desire, insert transitions between scenes, and add simple graphics, titles, music or narration to their personal productions.

Video-Capture Products

Our consumer video-capture products include a wide range of hardware-based solutions that enable consumers to capture analog video from VHS or camcorder tapes, live TV signals or any other analog source and turn it into a variety of digital formats for archiving or editing. Our Pinnacle Studio and Dazzle video capture solutions are available for either Windows or Macintosh users. We also offer Pinnacle Video Transfer, a stand-alone device that does not require a computer in order to capture video from any analog video source and transfer content to a mobile video player (such as an iPod), a hard drive or a flash memory stick.

Pinnacle Software Products

Our Pinnacle software offerings consist of nonlinear video-editing software products that run on the Windows operating system. Our Pinnacle Studio editing line is available in three configurations, Pinnacle Studio, Pinnacle Studio Plus and Pinnacle Studio Ultimate. Pinnacle Studio is designed for entry-level storytellers looking for a quick and easy way to enhance and share their projects with family and friends. Pinnacle Studio Plus and Pinnacle Studio Ultimate are intended for advanced video enthusiasts who require additional power, control and quality to create more professional looking results by offering additional features such as HD editing and HD output to disc. Pinnacle Studio products are available as stand-alone software products or bundled with a variety of video input/output hardware. Our recently announced VideoSpin editing product is available by free download and allows users to easily create movies in minutes simply by dragging and dropping videos, pictures and music from their personal computer hard drive onto a timeline and adding transitions and titles as they wish.

TV-Over-PC Viewing Products

Our TV-over-PC viewing products allow Windows or Macintosh users to view television programming on their computers wherever and whenever they choose. A television program can be viewed or recorded on its own using the Pinnacle TV Center software or in conjunction with applications such as Windows Media Center. The Pinnacle PCTV line, available for HD format in certain markets, consists of a family of USB sticks with a small and convenient form factor well-suited for use with laptops and PCI-based cards more appropriate for desktop users.

SALES AND SERVICE CHANNELS

We market and sell our products through a combination of direct and indirect sales channels, including a network of more than 3,000 independent distributors, value-added resellers and dealers. Our direct sales channel consists of internal sales representatives serving select customers and markets, as well as our Internet sales programs.

We have significant international operations with offices in 23 countries around the world. We believe this geographic diversity allows us to draw on business and technical expertise from a global workforce and provides stability to our operations and revenue streams to offset regional economic trends. Revenues from our international operations accounted for 58%, 57% and 57% of our total net revenues for 2007, 2006 and 2005, respectively.

We generally ship our products shortly after the receipt of an order, which is typical for our industry. Historically, a high percentage of our revenues has been generated in the third month of each fiscal quarter and is concentrated in the latter part of that month. Accordingly, orders may exist at the end of a quarter that have not been shipped and have not been recognized as revenue. Backlog that may exist at the end of any quarter is not a reliable indicator of future sales levels.

We have historically experienced increased sales for our consumer products in the fourth quarter due to holiday season demand. This historical pattern may not be a reliable indicator of future sales levels.

We provide customer service and support directly through regional telephone support centers and major-market field service representatives and indirectly through strategically located dealers, value-added resellers and authorized third-party service providers. Depending on the product, customers may choose from a variety of support offerings, including telephone support, quick-response on-site assistance, hardware replacement and extended warranty, and software upgrades. In addition, we offer media-industry consultation and installation services. We also offer customer training, which is available directly from us or through certified Avid training centers around the world. Revenues from service and support offerings represented 13%, 11% and 11% of our consolidated net revenues in 2007, 2006 and 2005, respectively.

MANUFACTURING AND SUPPLIERS

Our manufacturing operations consist primarily of the testing of subassemblies and components purchased from third parties, the duplication of software, and the configuration, assembly and testing of board sets, software, related hardware components and complete systems. In addition to our internal manufacturing operations, we rely on independent contractors to manufacture some of our products and certain components and subassemblies, in each case to our specifications, both in the United States and overseas. Our products undergo testing and quality assurance at the final assembly stage. We depend on a number of sole source vendors for certain key hardware components of our products. For the risks associated with our reliance upon certain vendors, see Item 1A Risk Factors.

Our manufacturing facilities are located in: Tewksbury, Massachusetts; Dublin, Ireland; Menlo Park, California; Mountain View, California; and Irwindale, California. We also contract with third-party manufacturing facilities in the United States and overseas for the manufacture of some of our products and certain component parts.

Avid Green Initiative

In order to comply with environmental directives, such as those recently adopted or currently proposed in the European Union, China, Japan, Korea and various states within the United States, we must provide for the recycling of our products and removal of specific toxic substances that may be found in our products sold in these jurisdictions. During 2007 we began and made significant progress with our Avid Green Initiative, including hiring a corporate environmental officer. This officer initially focused on the Waste Electrical and Electronic Equipment Directive, or WEEE, and Restriction of the use of certain Hazardous Substances in electrical and electronic equipment, or RoHS, compliance initiatives. We have also begun work on a Design for Environment program, which incorporates environmental considerations into products from initial concept to end-of-life. In addition, we expect to finalize in 2008 a Corporate Environment Management System and Environmental Policy Statement, which will ensure that we as an organization incorporate conservation, energy management, waste management and other environmental concerns into our business process.

In 2007 and 2006, we incurred costs of approximately $0.6 million and $3.3 million, respectively, to comply with the various environmental regulations, including WEEE and RoHS. In 2005 the expense for such compliance was immaterial. The environmental compliance costs were significantly higher in 2006 as a result of the initial costs of complying with WEEE and RoHS, both of which went into effect in that year. We expect our 2008 environmental compliance costs to remain approximately the same as the 2007 costs. However, because these regulations are new and some jurisdictions have not yet finalized their implementation rules, it is difficult to predict the exact cost of compliance for 2008 and beyond, and the actual amount is subject to change. Any amounts spent for compliance will result in decreased earnings, but are required in order to allow us to continue selling our products in these jurisdictions.

INTELLECTUAL PROPERTY

We regard our software and hardware as proprietary and protect our proprietary interests under the laws of patents, copyrights, trademarks and trade secrets, as well as through contractual provisions.

We have obtained patents and have registered copyrights, trademarks and service marks in the United States and in many foreign countries. As of December 31, 2007, we held 246 U.S. patents, with expiration dates through 2024, and had 89 patent applications pending with the U.S. Patent and Trademark Office. We have also registered or applied to register various trademarks and service marks in the United States and a number of foreign countries, including Avid, Media Composer, NewsCutter, Digidesign, Pro Tools, M-Audio, Softimage, XSI, Sibelius and Pinnacle Systems. Although we believe ownership of our patents, copyrights, trademarks, service marks and trade secrets is an important factor in our business, our success relies primarily on the innovative skills, technical competence and marketing abilities of our personnel.

Our software is licensed to end users pursuant to shrink-wrap, embedded, click-through or signed paper license agreements. Our products generally contain copy-protection and/or copy-detection features to guard against

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unauthorized use. Policing unauthorized use of computer software is difficult, and software piracy is a persistent problem for us, as well as for the software industry in general. This problem is particularly acute in international markets. We participate in an anti-piracy program through the Business Software Alliance, or BSA, an external association of software vendors.

RESEARCH AND DEVELOPMENT

We are known as a pioneer and innovator in the media industry with research and development, or R&D, centers across North America and Europe. Our R&D expenditures for 2007, 2006 and 2005 were $150.7 million, $141.4 million and $111.3 million, respectively.

Our R&D efforts are focused on the development of digital media content-creation tools and workgroup solutions that operate primarily on the Macintosh and Windows platforms. We are committed to delivering best-in-class video, film, 3D animation and audio editing systems to meet the needs of professionals in the television, film, music, broadcast production and industrial post-production markets, and the needs of end-users in the educational, consumer and corporate markets. Our R&D efforts also include networking and storage initiatives intended to deliver standards-based media transfer and media asset management tools, as well as stand-alone and network-attached media storage systems for workgroups. Our systems are designed to include technology for encoding and streaming media over the Internet.

Our R&D operations are located in: Tewksbury, Massachusetts; Daly City, California; Mountain View, California; Irwindale, California; Madison, Wisconsin; Rochelle Park, New Jersey; Dallas, Texas; Braunschweig, Germany; Munich, Germany; Montreal, Canada; Edmonton, Canada; and London, England. We also employ independent contractors in the United States and abroad for R&D activities.

COMPETITION

The markets for our products are highly competitive and subject to rapid change. Our competition is fragmented, with a large number of competitors providing different types of products to different markets.

PROFESSIONAL VIDEO

Video and Film Editing and Finishing

In the TV, video and film post-production markets, we compete primarily with vendors that offer similar digital editing and effects products based on standard computer platforms. These competitors include Apple Inc., Adobe Systems Incorporated, AJA Video Systems Inc., Blackmagic Design Pty. Ltd., Autodesk, Inc., Quantel Inc., Dayang Technology Development Inc. and Sony Corporation. In the 3D animation sector, we compete with Autodesk, Inc. and NewTek, Inc.

Broadcast

In the broadcast production area, we compete with vendors of video servers and traditional broadcast equipment that offer nonlinear editing and shared storage systems, such as Apple Inc., Harris Corporation, Thomson Grass Valley, Quantel Inc. and Sony Corporation. Other vendors of competitive products targeting these markets include 360 Systems and Bit Central, Inc. Primary competitors with respect to newsroom solutions are The Associated Press (ENPS) and Dalet Digital Media Systems. In on-air graphics, principal competitors are Chyron Corporation, Harris Corporation and Vizrt Ltd. Our primary competitors in play-to-air servers are Thomson Grass Valley, Harris Corporation, Omneon Video Networks, EVS Broadcast Equipment and SeaChange International, Inc. We expect continued competition from these vendors as they develop and introduce digital media products. In addition, as more disciplines move toward rich video content, we expect to see competition from companies like International Business Machines Corporation (IBM) and Accenture, which approach solving customers' problems by bundling multiple off-the-shelf and custom systems.

Storage & Workgroups and Digital Asset Management

We compete in the data storage market with companies such as Advanced Digital Information Corporation (ADIC), Apple Inc., Ciprico Inc., EditShare LLC, EMC Corporation, Hewlett-Packard Development Company L.P., IBM, Isilon Systems, Inc., Facilis Technology Inc., Omneon Video Networks and Rorke Data (a subsidiary of Bell Microproducts, Inc.). In digital asset management, we compete with products primarily from Cinegy GmbH, Thomson Grass Valley, Ardendo AB (a Vizrt company) and Dalet Digital Media Systems.

AUDIO

In the Audio segment, we compete primarily with suppliers of disk-based digital audio workstation software and hardware products, such as Apple Inc., MOTU, Inc. (Mark of the Unicorn), Line 6, Inc., Merging Technologies Inc. and Steinberg Media Technologies GmbH (a subsidiary of Yamaha Corporation). We also compete with manufacturers of professional analog and digital mixing consoles for studio production and live-sound mixing, including AMS Neve Ltd., DiGiCo Limited, Euphonix, Inc., Midas (a division of Telex Communications, Inc.), Solid State Logic Ltd. and Yamaha Corporation. We also compete with manufacturers of low-cost, computer-connected audio I/O hardware, such as Creative Technology Ltd., PreSonus Audio Electronics, Inc., Loud Technologies, Inc., Roland Corporation, Tascam (a division of TEAC Corporation) and Yamaha Corporation. In addition, M-Audio also competes in the categories of MIDI keyboard/controllers, MIDI interfaces, speakers, pre-amplifiers and microphones with many of these companies and others. Our Sibelius products compete with products offered by MakeMusic Inc., Notion and others.

CONSUMER VIDEO

In the Consumer Video segment, we compete primarily with video-editing software providers Adobe Systems, Inc., Sony Corporation, Ulead Systems, Inc. (a subsidiary of Corel Corporation), Sonic Solutions, and Magix AG. In the market for TV-over-PC viewing, we compete with Hauppauge Computer Works, Inc., ATI Technologies, Inc. and TerraTec Electronic GmbH.

OPERATIONS

Avid is headquartered in Tewksbury, Massachusetts, with operations spanning the United States, Canada, South America, Europe and Asia. Avid employed approximately 2,728 people worldwide as of December 31, 2007.

WEB SITE ACCESS

We make available free of charge on our website, www.avid.com, copies of our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and all amendments to those reports as soon as practicable after such material is filed with the Securities and Exchange Commission. Additionally, we will provide paper copies of all of these filings free of charge upon request. Alternatively, these reports can be accessed at the SEC s Internet website www.sec.gov.

Avid brands can be accessed at www.avid.com, www.digidesign.com, www.m-audio.com, www.pinnaclesys.com, www.sibelius.com, www.softimage.com and www.sundancedigital.com.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below in addition to the other information included or incorporated by reference in this annual report before making an investment decision regarding our common stock. If any of the following risks actually occurs, our business, financial condition or operating results would likely suffer, possibly materially, the trading price of our common stock could decline, and you could lose part or all of your investment.

Our revenues and operating results depend on several variables and may fluctuate from period to period.

Our revenues and operating results depend on several variables, which include, but are not limited to:

- size, timing and volume of significant orders and shipments;
- mix of products and services sold;
- our ability to recognize revenues from large solution-based sales;
- length of sales cycles and associated costs;
- global macroeconomic conditions;
- timing and acceptance of new product introductions by us and our competitors;
- competitive pressure on product pricing;
- remedial costs and reputational harm associated with product defects or errors;
- price discounts and sales promotions;
- cost and proportion of third-party technology or components incorporated into or bundled with products sold;
- reliance on third-party reseller and distribution channels;

- changes in operating expenses;
- seasonal factors, such as higher consumer demand at year-end;
- changes in foreign currency exchange rates; and
- price protections and provisions for inventory obsolescence extended to resellers and distributors.

The occurrence and relationship of these variables may cause our revenues and operating results to fluctuate from period to period. As a result, period-to-period comparisons of our revenues and operating results may not provide a good indication of our future performance.

Our success depends in part on our ability to adapt to dynamic market demand and continued customer acceptance of our products.

The markets in which we operate are dynamic and rapidly evolving. We continuously develop new products, as well as strategically upgrade or enhance our existing products, in an attempt to capitalize on market trends. Any new or upgraded product may require months or years of development prior to its actual introduction and may involve substantial investments of resources. Development can be a complex and uncertain process, and we may experience design, manufacturing or other difficulties that delay or prevent the introduction of products or result in even greater resource outlays. Additionally, we may fail to predict market trends correctly, fall short of customer expectations or encounter product quality issues, in which case our new or upgraded product introductions may fail. New or upgraded product introductions may also have a negative impact on the market for our existing products.

The markets in which we operate are highly competitive, and our competitors may be able to draw upon a greater depth and breadth of resources than those which are available to us.

We operate in highly competitive markets characterized by pressure to expand feature sets and functionality, accelerate new product releases and reduce prices. Some markets, including many of the consumer markets in which we compete, also have limited barriers to entry. Customers consider many factors when evaluating our products relative to those of our competitors, including reliability, performance, ease of use, feature sets, functionality, reputation, training and support, and we may not compare favorably against our competitors in all cases. Some of our current and potential competitors have longer operating histories, greater brand recognition and substantially greater financial, technical, marketing, distribution and support resources than we do. As a result, they may be able to respond more quickly to new or emerging technologies and changes in market demand, devote greater resources to the development, marketing and sale of their products, or price their products more aggressively than we can. The superior resources of these competitors may also allow them to realize economies of scale or other cost-saving advantages that allow them to price their products aggressively relative to our products, in which case our product sales may decline and our revenues and operating results may suffer.

Competition for technical and management personnel is intense in our industry, and our business may suffer if we are unable to attract or retain key personnel.

Our success depends in part upon our ability to attract and retain talented and dedicated personnel, including members of our management team and employees in key technical positions. Competition for managerial and technical talent in the markets and geographic areas in which we operate is intense and turnover rates can be high. Our compensation, incentive and development practices may be inadequate for purposes of retaining personnel or attracting needed talent. Additionally, companies with which we compete for talent may offer potential recruits a more dynamic work environment or greater opportunity to work with, or train on, cutting-edge technology than we are able to offer. In the past, we have relied on stock option grants as one mechanism for recruiting and retaining highly skilled talent, however, a decline in the market price for our common stock may cause stock options that we have issued to be of little or no value. If we fail to provide adequate compensation and incentives, we may be unable to compete successfully for talented and dedicated employees and our business may suffer.

Our Avid 20|20 initiatives, focusing on operational efficiency and strategic analysis and improvements, may not achieve their intended results.

Through a collaborative review process, referred to as Avid 20|20, we identified a number of potential initiatives that focus on operational efficiency and strategic analysis and improvements. We have undertaken, or plan to undertake, many of these initiatives. Pursuit of these initiatives may divert management s time and attention from day-to-day operational matters and may require significant investment. We cannot be certain that these initiatives will achieve improved operational efficiency or other intended results. Additionally, these initiatives may be misplaced or insufficient for purposes of positioning us for future growth, in which case our long-term competitive position may suffer.

We may have difficulty accurately forecasting quarterly revenues and operating results.

We have in the past had, and may in the future have, difficulty accurately forecasting quarterly revenues and operating results due, in part, to an historically high concentration of sales activity near quarter-end. Additionally, many of our larger enterprise or solution sales include complex customer acceptance terms that may delay, or make difficult to predict the timing of, revenue recognition. If any of our quarterly forecasts of revenues or operating results proves to be inaccurate, we may fail to meet the expectations of investors and securities analysts, and the market price of our common stock may decline.

Potential acquisitions could be difficult to integrate, divert the attention of key personnel, disrupt our business, dilute stockholder value and impair our financial results.

As part of our business strategy, we periodically acquire companies, technologies and products that we believe can improve our ability to compete in our existing markets or allow us to enter new markets. The potential risks associated with any acquisition include, but are not limited to:

- difficulty in assimilating the operations, policies and personnel of the acquired company;
- failure to realize anticipated returns on investment, cost savings and synergies;
- possibility of incurring impairment charges related to goodwill and other intangible assets;
- unidentified issues not discovered in due diligence, which may include product quality issues or legal contingencies;
- diversion of management s time and attention;
- potential dilution to existing stockholders, if we issue common stock or other equity rights in the acquisition;
- potential loss of key employees of the acquired company;
- difficulty in complying with a variety of foreign laws and regulations, if so required;
- impairment of relationships with customers or suppliers; and
- possibility of contingent payments or earn-outs.

Acquisitions often involve significant transaction-related costs, including potential hidden costs that we may not fully appreciate, and could cause disruption to our normal operations. In the future, in addition to acquisitions, we may also make debt or equity investments, and we may fail to realize anticipated returns on such investments.

Our Professional Video customers are increasingly demanding comprehensive product and service solutions from single vendors, which we may be unable to provide or successfully implement.

Our Professional Video customers are increasingly demanding comprehensive product and service solutions from single vendors, as opposed to discrete point product and service purchases from multiple vendors. This trend is being driven to a significant degree by media and broadcast organizations converting entire systems from analog, or tape-based, processes to digital formats. Our combined product and service solutions may not always be sufficiently compelling or comprehensive for our customers requirements, and we may need to augment our solutions with third-party products and services. Such third-party products and services may not be available to us on commercially reasonable terms or at all. To the extent we are unable to provide our customers with compelling or comprehensive product and service solutions, we may be competitively disadvantaged and our revenues and operating results may decline. Additionally, if we are unable to achieve successful and timely implementation of these solutions, our industry reputation may be diminished and our ability to secure similar sales opportunities in the future may be impaired. The size and frequency of, and competition for, these types of sales may cause our revenues to become more variable from period to period, in which case we may fail to meet the expectations of investors and securities analysts, and the market price of our common stock may decline.

To the extent we derive significant revenues from consumer markets, we may experience lower profit margins and greater revenues seasonality.

As a result of acquisitions and new product initiatives, we derive significant revenues from sales to consumers of home video and audio products. The market for consumer video and audio products is highly competitive and changes rapidly, and we may not have sufficient skill or experience to continue to compete effectively. Additionally, competitive and consumer-driven pricing pressure may result in lower consumer profit margins that could lower our overall profit margins. Similarly, our revenues may exhibit greater seasonality because sales of consumer electronics typically increase in the latter half of the year.

Our products may, from time to time, experience quality problems that could negatively impact our customer relationships, our market reputation and our operating results.

We offer sophisticated and complex products. Our software products, as is typical of high-end software, generally include coding defects or errors, often referred to as bugs, which in some cases may interfere with or impair a customer s ability to operate or use the software. Similarly, our hardware products, from time to time, may include design or manufacturing defects that could cause them to malfunction. Although we employ various quality control measures, they may be inadequate, particularly if other business considerations, such as meeting target release-to-market dates, limit the amount of time or resources available to devote to such measures. We cannot be certain that we will be able to detect or remedy all such defects that may exist in our products. Any such defects could result in loss of customers or revenues, delays in revenue recognition, increased product returns, damage to our market reputation and significant warranty or other expense.

A catastrophic event may significantly limit our ability to conduct business as normal.

We operate a complex, geographically dispersed business, which includes a significant personnel and facilities presence in California near major earthquake fault lines. Disruption or failure of our networks or systems, or injury or damage to our personnel or physical infrastructure, caused by a natural disaster, public health crisis, terrorism, cyber attack, act of war or other catastrophic event may significantly limit our ability to conduct business as normal, including our ability to communicate and transact with our customers, suppliers, distributors and resellers, and negatively impact our revenues and operating results. The threat or occurrence of a catastrophic event may create additional economic and political uncertainties that could adversely affect our business and the markets in ways that cannot be predicted. We are predominantly uninsured for losses and disruptions caused by such catastrophic events, and we may not have a sufficiently comprehensive enterprise-wide disaster recovery plan in place.

Our success depends in part on protecting our proprietary technology from third-party infringement and misappropriation.

Our ability to compete successfully and achieve future revenues growth depends in part on our ability to protect our proprietary technology. Software piracy is an ongoing concern for us, particularly with respect to our consumer products, where we have limited ability to track license usage and transfers. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality procedures and contractual provisions to protect our proprietary technology. We also design some of our products to include anti-piracy features, such as required hardware components or security keys. These legal and security practices may prove to be inadequate or subject to circumvention. Additionally, the laws of certain countries in which we operate may not protect our proprietary technology to the same extent as do the laws of the United States. The unauthorized use or copying of our proprietary technology results in lost revenues to our business, and enforcement actions or litigation that we may pursue to protect our technology may be costly and time-consuming.

Our products may infringe third-party intellectual property rights.

We occasionally receive communications alleging that our products infringe third-party intellectual property rights. Although our practice is to investigate the factual basis of such allegations and negotiate licenses where necessary, licenses may not be available to us on commercially reasonable terms or at all, in which case we may be required to expend considerable resources to develop a non-infringing alternative. Until we are able to develop an alternative, sales of our products may be delayed or suspended or we may be forced to distribute our products with reduced feature sets or functionality. We also may be liable to some of our customers, resellers and distributors for damages in connection with intellectual property claims relating to our products. If any of these risks were to occur, the potential harm to our business could be substantial.

Qualifying and supporting our products on multiple computer platforms is time consuming and expensive.

We devote significant time and resources to qualify and support our software products on various computer platforms, including Microsoft and Apple operating systems. To the extent that any qualified and supported platform is modified or upgraded, or we need to qualify and support a new platform, we would be required to expend additional engineering time and resources, which may add significantly to our development expenses and adversely affect our operating results.

Our use of independent contracting firms and subcontractors for certain product development and manufacturing activities may limit our control over such activities or expose us to other risks.

From time to time, we engage independent contracting firms, some of which are located in foreign countries, to perform product development activities for us to complement or support our internal development efforts. We generally own the work product developed by such firms. We also rely on subcontractors, many of which are likewise located in foreign countries, for some of our procurement and manufacturing activities. Our reliance on third parties for development and manufacturing activities may, among other risks, reduce our control over delivery schedules, order lead times, product quality and component costs.

Our revenues and operating results depend significantly on third-party reseller and distribution channels.

We distribute many of our Professional Video products, and substantially all of our Audio and Consumer Video products, indirectly through third-party resellers and distributors. With respect to our Audio and Consumer Video products, relatively few resellers and distributors account for a significant portion of our revenues. The loss of one or more of these or other key resellers or distributors may significantly reduce our revenues. Increasingly, we are distributing our products directly to customers, which could put us in competition with our resellers and distributors and adversely affect these relationships. Additionally, in response to this or similar direct sales strategies that we may undertake, or for other business reasons, resellers and distributors may choose to resell our competitors products in addition to, or in place of, ours. Resellers and distributors of our Audio and Consumer Video products typically have limited rights of return, as well as inventory stock rotation and price protection. Accordingly, reserves for estimated returns, exchanges and credits for price protection are recorded as a reduction of revenues upon product shipment, based upon our historical experience. To date, actual returns of our Audio and Consumer Video products have not differed materially from management s estimates. To the extent returns of our Audio or Consumer Video products exceed such estimated levels, our revenues and operating results may be adversely impacted.

We depend on the availability and proper functioning of certain third-party technology that we incorporate into or bundle with our products.

We license third-party technology for incorporation into or bundling with our products. This technology may provide us with critical or strategic feature sets or functionality. The profit margin for each of our products depends in part on the royalty, license and purchase fees we pay in connection with third-party technology. To the extent we add additional third-party technology to our products and we are unable to offset associated costs, our profit margins may decline and our operating results may suffer. In addition to cost implications, third-party technology may include defects or errors that could adversely affect the performance of our products, which may harm our market reputation or adversely affect product sales. Third-party technology may also include open source software code that if used in combination with our own software may jeopardize our intellectual property rights. If any third-party technology license expires, is terminated or ceases to be available on commercially reasonable terms, we may be required to expend considerable resources integrating alternative technology or developing our own. In the interim, sales of our products may be delayed or suspended or we may be forced to distribute our products with reduced feature sets or functionality.

Lengthy procurement lead times and unpredictable life cycles and customer demand for some of our products may result in significant inventory risks.

With respect to many of our products, we must procure component parts and build finished inventory far in advance of product shipments. Certain of these products, particularly within our consumer markets, may have unpredictable life cycles and encounter rapid technological obsolescence as a result of dynamic market conditions. We procure product components and build inventory based upon our forecasts of product life cycle and customer demand. If we are unable to provide accurate forecasts or manage our inventory levels in response to shifts in customer demand, we may have insufficient, excess or obsolete product inventory. Insufficient product inventory may impair our ability to fulfill product orders and negatively impact our revenues. For excess or obsolete inventory, we may need to record a write-down on products and components to their realizable value, which would negatively impact our results of operations.

We purchase certain hardware components for our products from sole source suppliers.

We depend on sole source suppliers for certain key hardware components of our products. We do not generally carry significant inventories of, and may not in all cases have guaranteed supply arrangements for, these hardware components. If any of our sole source suppliers ceases, suspends or otherwise limits production or shipment of its hardware components, or adversely modifies our terms or pricing structures, our ability to sell and service our own products may be impaired. We cannot be certain that we will be able to obtain these hardware components, or acceptable substitutes, from alternative sources or that we will be able to do so on commercially reasonable terms. We may also be required to expend significant development resources to redesign our products to work around the exclusion of any hardware component or accommodate the inclusion of any substitute hardware component, in which case our operating results may suffer.

Our international operations expose us to significant exchange rate fluctuations and regulatory, intellectual property and other risks that may adversely affect our operating results.

We derive a significant portion of our revenues from customers outside of the United States. Our international sales are, for the most part, transacted through foreign subsidiaries and generally in the currency of the end-user customers. Therefore, we are exposed to the risks that changes in foreign currency could adversely impact our revenues, operating results and cash flow. To hedge against the international exchange exposure of certain forecasted receivables, payables and cash balances of our foreign subsidiaries, we enter into foreign currency, forward-exchange contracts. The success of our hedging program depends on forecasts of transaction activity in the various currencies. To the extent that these forecasts are over- or understated during periods of currency volatility, we may experience currency gains or losses. Other risks inherent in our international operations relate to, among other things, environmental laws, regulatory practices, tax laws, trade restrictions and tariffs, as well as longer collection cycles for accounts receivable and greater difficulties in protecting our intellectual property.

We are subject to risks associated with environmental regulatory compliance.

Many of our products are subject to international, federal and state laws and regulations governing the presence of chemical substances in, and the proper recycling of, such products. Our product design and procurement operations are becoming increasingly complex as we adjust to new and future requirements relating to the composition and energy consumption of our products, including similar legislation recently adopted or currently proposed in the European Union, China, Japan, Korea and various states within the United States. Our potential liability resulting from environmental legislation may be substantial and may have an adverse effect on our operating results.

Our websites may subject us to legal claims that could harm our business.

Some of our websites provide interactive information and services to our customers, including content generated or posted by members of the public. To the extent that materials may be posted on or downloaded from our websites and distributed to others, we may be subject to claims for defamation, negligence, copyright or trademark infringement, personal injury or other theories of liability based on the nature, content, publication or distribution of such materials. In addition, we may also be subject to claims for indemnification by end users in the event that the security of our websites is compromised. Our websites are available on a worldwide basis and may potentially be subject to a wide variety of international laws. The potential impact of these risks on our business could be substantial.

If we experience problems with our third-party leasing program, our revenues may be adversely impacted.

We have an established leasing program with a third party that allows qualified customers to finance purchases of our products. If this program ended abruptly or unexpectedly, some customers would likely be unable to purchase our products unless or until they were able to arrange for alternative financing. To the extent such customers were precluded from, or delayed in, making product purchases, our revenues may decline.

The market price of our common stock has been and may continue to be volatile.

The market price of our common stock has experienced volatility in the past and may continue to fluctuate substantially in the future in response to various factors, some of which are beyond our control. These factors include, but are not limited to:

- period-to-period variations in our revenues or operating results;
- our failure to accurately forecast quarterly or annual revenues or operating results;
- shortfalls in our revenues or earnings compared to expectations;
- changes in investors perceptions of us or our competitors;
- announcements by us or our competitors of acquisitions, new products, significant contracts, commercial relationships or capital commitments;
- shifts in markets or demand for our products;
- our ability to develop and market new or upgraded products on a timely basis;
- changes in our relationships with suppliers, resellers, distributors or customers;
- our commencement of, or our involvement in, litigation;
- changes to our board of directors or management;
- the volume of shares of our common stock available for public sale;

- short sales, hedging or other derivative transactions involving shares of our common stock;
- shifts in financial markets;
- changes in governmental regulations; and
- global macroeconomic conditions.

Additionally, broader financial market trends may negatively affect the market price of our common stock, regardless of our operating performance.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal corporate and administrative offices, as well as our Professional Video headquarters, are located in three adjacent buildings in an office park located in Tewksbury, Massachusetts. Our leases on these buildings expire in June 2010.

We lease office space in Daly City, California for our Audio headquarters, including its administrative, sales and marketing and R&D activities, and in Mountain View, California, for our Consumer Video headquarters including its administrative, sales and marketing and R&D activities. In Europe we lease facilities in Iver Heath, United Kingdom for our European headquarters, including administrative, sales and support functions; in Munich, Germany for R&D, sales and administrative support; and in Braunschweig, Germany to accommodate the European engineering operations for our Consumer Video products. In Asia, we lease facilities in Singapore for our Asian headquarters. We also lease facilities in Dublin, Ireland and Menlo Park, California for the manufacture and distribution of our products.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below are the names and ages of each of our executive officers, the position(s) currently held by each person and the principal occupation held by each person for at least the past five years.

EXECUTIVE OFFICER	AGE	POSITION(S)
Gary G. Greenfield	53	Chairman of the Board of Directors and Chief Executive Officer
Kirk E. Arnold	48	Executive Vice President and General Manager, Professional Video
Gregory A. Estes	47	Vice President and Chief Marketing Officer
Nancy A. Grant	48	Vice President and Corporate Controller
David M. Lebolt	51	Vice President and General Manager, Audio
Joel E. Legon	57	Vice President and Chief Financial Officer
Gregory A. Munster	46	Chief Information Officer and Vice President of Business Process Transformation
Paige Parisi	43	Vice President, General Counsel and Corporate Secretary
Sharad Rastogi	40	Vice President of Corporate Development and Interim General Manager, Consumer Video
Kenneth A. Sexton	54	Executive Vice President and Chief Administrative Officer

GARY G. GREENFIELD. Mr. Greenfield has served as Chairman of the Board of Directors and Chief Executive Officer since December 2007. Prior to joining us, Mr. Greenfield was Chief Executive Officer of GXS, Inc., a provider of business-to-business integration, synchronization and collaboration solutions, since December 2003. Also during that period, he was an Operating Partner with Francisco Partners, a technology-focused private equity firm. From June 2002 to August 2003, Mr. Greenfield served as Chief Executive Officer of Peregrine Systems, Inc., an infrastructure management software company. From December 2001 to March 2003, Mr. Greenfield also served as an advisor to JMI Equity Fund. Prior to that, Mr. Greenfield served as President and Chief Executive Officer of MERANT PLC and, prior to that, was the President and Chief Executive Officer of INTERSOLV, Inc., during which time it merged with Micro Focus Group PLC to form MERANT.

KIRK E. ARNOLD. Ms. Arnold has served as Executive Vice President and General Manager of Professional Video since February 2008. Prior to joining us, Ms. Arnold was Vice Chairman, Chief Executive Officer and President of Keane Inc., a global consulting and outsourcing firm, from January 2007 to June 2007. Prior to that, she was at Fidelity Investments, serving as Executive Vice President of Product, Marketing and Strategy for the Human Resources Outsourcing Group, Fidelity s business process outsourcing unit, from June 2004 to January 2007, and as Senior Vice President of Sales and Market for Fidelity Institutional Retirement Services Company from June 2003 to June 2004. Prior to joining Fidelity, Ms. Arnold served as President and Chief Executive Officer of NerveWire, Inc., a venture-backed information technology services business that she helped launch, from February 2002 to February 2003, and as NerveWire s President and Chief Operating Officer from February 2000 to February 2002.

GREGORY A. ESTES. Mr. Estes has served as Vice President and Chief Marketing Officer since December 2006. Previously, Mr. Estes served as a marketing consultant to us. Prior to that, from July 1990 to March 2006, he was Vice President of Global Marketing at Silicon Graphics Inc., a provider of high-performance computing and data management solutions. Mr. Estes was also a founding member of RasterOps Corp., which developed the first color graphics boards and video capture devices for the Macintosh II in the late 1980's.

NANCY A. GRANT. Ms. Grant has served as Vice President and Corporate Controller since December 2007. Since joining us in 1992, Ms. Grant has previously served as Corporate Accounting Manager from 1992 to 1997, Director of Order Administration from 1997 to 1998, and Director of Corporate Finance and Assistant Corporate Controller from 1998 until December 2007. Prior to joining us, Ms. Grant served as an Audit Manager at Deloitte and Touche LLC.

DAVID M. LEBOLT. Mr. Lebolt has served as Vice President and General Manager of Audio since July 2002. Previously, Mr. Lebolt held a variety of positions at our Digidesign, including Vice President of Product Strategy from November 1999 to July 2002, Director of Product Strategy from November 1998 to November 1999 and Pro Tools Product Line Manager from February 1994 to November 1998. Before joining Digidesign in 1994, Mr. Lebolt was a professional keyboardist, producer, arranger and composer. He also has experience in music advertising and music production and has received both Clio and Emmy awards for his production work.

JOEL E. LEGON. Mr. Legon has served as Vice President and Chief Financial Officer since July 2007. From March 2006 to July 2007, Mr. Legon was Vice President and Corporate Controller for Avid. Prior to joining us, Mr. Legon served in the following positions at Parametric Technology Corporation, a lifecycle management software solutions company: from January 2004 to March 2006 as Senior Vice President of Finance and Corporate Controller; from November 1999 to January 2004 as Vice President of Finance and Corporate Controller; and from March 1998 to November 1999 as Corporate Controller. Prior to that, Mr. Legon held finance positions at Computervision Corporation, NEC America, Inc., Chesebrough-Ponds, Inc. and Richardson-Vicks Inc.

GREGORY A. MUNSTER. Mr. Munster has served as Chief Information Officer and Vice President of Business Process Transformation since July 2007. Previously, Mr. Munster served as a business process consultant to us beginning in March 2007. Prior to that, from April 2005 until January 2007, Mr. Munster served as Executive Director of Corporate Strategy at Lenovo International, a designer and manufacturer of personal computer products. Prior to the divestiture of its Personal Computer Group to Lenovo, Mr. Munster served from January 1999 until April 2005 in several executive positions at IBM, most recently as a Vice President of Marketing and Strategy for its Asia-Pacific operations based in Tokyo, Japan.

PAIGE PARISI. Ms. Parisi has served as Vice President, General Counsel and Corporate Secretary since May 2006. From June 2003 to May 2006, Ms. Parisi was Corporate Counsel for us. Ms. Parisi also served as our outside counsel while in private practice at Wilmer Cutler Pickering Hale and Dorr LLP from 1997 to 2003. Prior to beginning her law career, Ms. Parisi was a news producer for the CBS Evening News and NBC Nightly News.

SHARAD RASTOGI. Mr. Rastogi has served as Vice President of Corporate Development since August 2005 and as Interim General Manager of Consumer Video since July 2007. From January 2004 until August 2005, he was Vice President of Strategic Planning and New Business Development. Prior to joining us, Mr. Rastogi was a Vice President and Partner at the management consulting firm Bain & Company, Inc. from September 1996 until December 2003. Prior to that, Mr. Rastogi was senior automation engineer at hard-disk manufacturer Komag, Inc.

KENNETH A. SEXTON. Mr. Sexton has served as Executive Vice President and Chief Administrative Officer since January 2008. Prior to joining us, in 2007 Mr. Sexton served as Executive Vice President and Chief Financial Officer of webMethods, Inc., a provider of business integration solutions. In 2006 he was Executive Vice President and Chief Financial Officer of Infor, Inc., a private software company focused on enterprise resource planning software solutions. From 2004 to 2005, Mr. Sexton was Chief Executive Officer and Chairman of the Board of Axentis, Inc., a privately-held provider of enterprise governance, risk and compliance management software. From 2002 to 2004, Mr. Sexton was Executive Vice President and Chief Financial Officer of Peregrine Systems, Inc., an infrastructure management software company.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the NASDAQ Global Select Market under the symbol AVID. The table below shows the high and low sales prices of the common stock for each calendar quarter of the fiscal years ended December 31, 2006 and 2007.

2006	High	Low
First Quarter	$59.10	$41.65
Second Quarter	$44.45	$32.95
Third Quarter	$43.95	$32.05
Fourth Quarter	$40.68	$35.56

2007	High	Low
First Quarter	$38.36	$31.90
Second Quarter	$38.78	$32.00
Third Quarter	$38.34	$25.55
Fourth Quarter	$29.58	$24.79

On February 25, 2008, the last reported sale price of our common stock on the NASDAQ Global Select Market was $23.35 per share. The approximate number of holders of record of our common stock at February 20, 2008 was 434. This number does not include shareholders for whom shares were held in a nominee or street name.

We have never declared or paid cash dividends on our capital stock and we do not anticipate paying any cash dividends in the foreseeable future.

Issuer Purchases of Equity Securities

A stock repurchase program was approved by the Company s board of directors and publicly announced on April 26, 2007. Under this program, the Company was authorized to repurchase up to $100 million of its common stock through transactions on the open market, in block trades or otherwise. The program has no expiration date. The following table is a summary of the stock repurchases under this program during the quarter ended December 31, 2007:

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of the Publicly Announced Program	Dollar Value of Shares That May Yet be Purchased Under the Program (in thousands)
October 30 October 31, 2007	50,735	$28.63	50,735	$74,882
November 1 November 2, 2007	52,500	$28.51	52,500	$73,385

103,235	$28.57	103,235	$73,385

Subsequent to December 31, 2007, from February 5, 2008 through February 21, 2008, we repurchased an additional 3,454,197 shares of our common stock for a total purchase price of $73.4 million, which completed the stock repurchases then authorized under the repurchase program. The average price per share, including commissions, paid for these shares was $21.28. The average price per share, including commissions, of the total repurchase of 4,263,433 shares of our common stock was $23.49. On February 27, 2008, we announced our board of directors' approval of a $100 million increase in the authorized funds for the repurchase of our common stock under this program.

Stock Performance Graph

The following graph compares the cumulative stockholder return on our common stock during the period from December 31, 2002 through December 31, 2007 with the cumulative return during the period for:

- the NASDAQ Computer, Data Processing Index, and

- the NASDAQ Index (all companies traded on NASDAQ Capital, Global or Global Select Markets).

This comparison assumes the investment of $100 on December 31, 2002 in our common stock, the NASDAQ Index and the NASDAQ Computer, Data Processing Index and assumes that dividends, if any, were reinvested.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected condensed consolidated financial data. The selected consolidated financial data below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included elsewhere in this filing. See Footnote G to our Consolidated Financial Statements in Item 8 for information regarding our acquisitions that affect the comparability of the selected condensed consolidated financial data presented.

CONSOLIDATED STATEMENTS OF OPERATIONS DATA:

(in thousands except per share data)

	For the Year Ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
Net revenues	$ 929,570	$ 910,578	$ 775,443	$ 589,605	$ 471,912
	$ 41,978	$ $	$ 41,978		

Note 6 Inventories

Inventories are stated at the lower of first-in, first-out cost or market and include material, labor and manufacturing overhead. Inventories, net of reserve for excess and obsolete items, consist of the following:

	March 31, 2013	December 31, 2012
Work in progress	$ 67,047	$ 68,171
Finished new railcars	2,450	
Used railcars acquired upon trade-in	105	105
Parts and service inventory	6,222	5,566
Total inventories	$ 75,824	$ 73,842

Inventory on the Company s condensed consolidated balance sheets includes reserves of $1,330 and $1,565 relating to excess or slow-moving inventory for parts and work in progress at March 31, 2013 and December 31, 2012, respectively.

Note 7 Leased Railcars

Railcars available for lease at March 31, 2013 was $43,132 (cost of $48,234 and accumulated depreciation of $5,102) and at December 31, 2012 was $43,435 (cost of $48,234 and accumulated depreciation of $4,799). The Company s lease utilization rate for railcars in its lease fleet was 100% at each of March 31, 2013 and December 31, 2012.

Leased railcars at March 31, 2013 are subject to lease agreements with external customers with terms of up to nine years and are accounted for as operating leases.

Future minimum rental revenues on leased railcars at March 31, 2013 are as follows:

Nine months ending December 31, 2013	$ 3,272

Year ending December 31, 2014	3,758
Year ending December 31, 2015	2,051
Year ending December 31, 2016	1,687
Year ending December 31, 2017	1,256
Thereafter	2,045
	$ 14,069

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Note 8 Property, Plant and Equipment

Property, plant and equipment consists of the following:

	March 31, 2013	December 31, 2012
Buildings and improvements	$ 25,267	$ 25,192
Machinery and equipment	37,993	36,672
Software	8,383	8,383
Leasehold improvements	5,350	5,350
Cost of buildings and improvements, leasehold improvements, machinery, equipment and software	76,993	75,597
Less: Accumulated depreciation and amortization	(41,003)	(39,269)
Buildings and improvements, leasehold improvements, machinery, equipment and software, net of accumulated depreciation and amortization	35,990	36,328
Land (including easements)	2,203	2,203
Construction in process	12,597	812
Total property, plant and equipment, net	$ 50,790	$ 39,343

Note 9 Intangible Assets and Goodwill

Intangible assets consist of the following:

	March 31, 2013	December 31, 2012
Patents	$ 13,097	$ 13,097
Accumulated amortization	(11,114)	(10,966)
Patents, net of accumulated amortization	1,983	2,131
Customer-related intangibles	1,300	1,300
Accumulated amortization	(250)	(213)
Customer-related intangibles, net of accumulated amortization	1,050	1,087
Total amortizing intangibles	$ 3,033	$ 3,218
Manufacturing segment goodwill	$ 21,521	$ 21,521
Services segment goodwill	607	607
Total goodwill	$ 22,128	$ 22,128

Patents are being amortized on a straight-line method over their remaining legal life from the date of acquisition. The weighted average remaining life of the Company s patents is 4 years. Amortization expense related to patents, which is included in cost of sales, was $148 for each of the three months ended March 31, 2013 and 2012. Customer-related intangibles are being amortized from the date of acquisition and have a remaining life of 18 years. Amortization expense related to customer intangibles, which is included in selling, general and administrative expenses, was $37 for each of the three months ended March 31, 2013 and 2012.

The estimated future intangible amortization at March 31, 2013 is as follows:

Nine months ending December 31, 2013	$ 554
Year ending December 31, 2014	744
Year ending December 31, 2015	720
Year ending December 31, 2016	476
Year ending December 31, 2017	108
Thereafter	431
	$ 3,033

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Note 10 Product Warranties

Warranty terms are based on the negotiated railcar sales contracts. The Company typically warrants that new railcars produced by it will be free from defects in material and workmanship under normal use and service identified for a period of up to five years from the time of sale. The changes in the warranty reserve for the three months ended March 31, 2013 and 2012, are as follows:

	Three Months Ended March 31,	
	2013	**2012**
Balance at the beginning of the period	$ 7,625	$ 7,795
Provision for warranties issued during the period	161	990
Reductions for payments, cost of repairs and other	(310)	(87)
Adjustments to prior warranties	(8)	(941)
Balance at the end of the period	$ 7,468	$ 7,757

Adjustments to prior warranties includes changes in the warranty reserve for warranties issued in prior periods due to expiration of the warranty period, revised warranty cost estimates and other factors.

Note 11 Revolving Credit Facility

On July 29, 2010, the Company entered into a $30,000 senior secured revolving credit facility pursuant to a Loan and Security Agreement dated as of July 29, 2010 (the Revolving Loan Agreement) among FreightCar, JA LLC, FCS, Operations and FCR, as borrowers (collectively, the Borrowers), and Fifth Third Bank, as lender. The proceeds of the revolving credit facility can be used for general corporate purposes, including working capital. As of March 31, 2013 and December 31, 2012, the Company had no borrowings and therefore had $30,000 available under the revolving credit facility. The Revolving Loan Agreement also contains a sub-facility for letters of credit not to exceed $20,000. The Company had no outstanding letters of credit under the revolving credit facility as of March 31, 2013 and December 31, 2012.

The Revolving Loan Agreement has a term ending on July 29, 2013 and revolving loans outstanding thereunder will bear interest at a rate of LIBOR plus an applicable margin of 2.50% or at prime, as selected by the Company. The Company is required to pay a non-utilization fee of 0.35% on the unused portion of the revolving loan commitment, which is included in interest expense and deferred financing fees in the consolidated statement of operations. Borrowings under the Revolving Loan Agreement are secured by the Company s accounts receivable, inventory and certain other assets of the Company, and borrowing availability is tied to a borrowing base of eligible accounts receivable and inventory. The Revolving Loan Agreement has both affirmative and negative covenants, including, without limitation, a minimum tangible net worth covenant and limitations on indebtedness, liens and investments. The minimum tangible net worth covenant in the Revolving Loan Agreement effectively limits potential dividends to $64,920 as of March 31, 2013. The Revolving Loan Agreement also provides for customary events of default. As of March 31, 2013, the Company was in compliance with all of the financial covenants contained in the agreement.

Note 12 Stock-Based Compensation

The Company recognizes stock-based compensation expense for stock option awards based on the fair value of the award on the grant date using the Black-Scholes option valuation model. Expected life in years for all stock options awards was determined using the simplified method. The Company believes that it is appropriate to use the simplified method in determining the expected life for options because the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term for stock options and due to the limited number of stock option grants to date. Expected volatility was based on the historical volatility of the Company s stock. The risk-free interest rate was based on the U.S. Treasury bond rate for the expected life of the option. The expected dividend yield was based on the latest annualized dividend rate and the current market price of the underlying common stock on the date of the grant. The Company recognizes stock-based compensation for restricted stock awards over the vesting period based on the fair market value of the stock on the date of the award, calculated as the average of the high and low trading prices for the Company s common stock on the award date.

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On January 14, 2013, the Company awarded 3,250 non-qualified stock options to an executive of the Company pursuant to its 2005 Long Term Incentive Plan. The stock options will vest in three equal annual installments beginning on January 14, 2014 and have a contractual term of 10 years. The exercise price of each option is $24.27, which was the fair market value of the Company s stock on the date of the grant. The estimated fair value of $10.70 per option will be recognized over the period during which the employee is required to provide service in exchange for the award, which is the vesting period. The following assumptions were used to value the January 14, 2013 stock options: expected lives of the options of 6 years; expected volatility of 51.36%; risk-free interest rate of 0.78%; and expected dividend yield of 0.98%.

On January 18, 2013, the Company awarded 96,800 non-qualified stock options to certain employees of the Company pursuant to its 2005 Long Term Incentive Plan. The stock options will vest in three equal annual installments beginning on January 18, 2014 and have a contractual term of 10 years. The exercise price of each option is $24.56, which was the fair market value of the Company s stock on the date of the grant. The estimated fair value of $10.82 per option will be recognized over the period during which the employee is required to provide service in exchange for the award, which is the vesting period. The following assumptions were used to value the January 18, 2013 stock options: expected lives of the options of 6 years; expected volatility of 51.38%; risk-free interest rate of 0.77%; and expected dividend yield of 0.99%.

During the three months ended March 31, 2013, the Company awarded 49,740 shares of restricted stock to certain employees of the Company pursuant to its 2005 Long Term Incentive Plan. Each restricted stock award will vest in three equal annual installments beginning on the first anniversary of the award, with continued vesting of the award subject to the recipient s continued employment with the Company. Stock compensation expense will be recognized over the vesting period based on the fair market value of the stock on the date of the award, calculated as the average of the high and low trading prices for the Company s common stock on the award date.

As of March 31, 2013, there was $3,514 of unearned compensation expense related to stock options and restricted stock awards, which will be recognized over the remaining requisite service period of 34 months.

Note 13 Employee Benefit Plans

The Company has qualified, defined benefit pension plans that were established to provide benefits to certain employees. These plans are frozen and participants are no longer accruing benefits. The Company also provides certain postretirement health care benefits for certain of its salaried and hourly retired employees. Generally, employees may become eligible for health care benefits if they retire after attaining specified age and service requirements. These benefits are subject to deductibles, co-payment provisions and other limitations.

A substantial portion of the Company s postretirement benefit plan obligation relates to a settlement with the union representing employees at the Company s and its predecessors Johnstown manufacturing facilities. The terms of that settlement agreement required the Company to pay until November 30, 2012 certain monthly amounts toward the cost of retiree health care coverage. The Company is currently engaged in negotiations related to the expired settlement agreement but no agreements have been reached. Therefore, the outcome of those negotiations and the impact on the Company s postretirement benefit plan obligation cannot be determined at this time. The Company s recorded postretirement benefit plan obligation assumes for accounting purposes a continuation of those monthly payments after November 30, 2012 (as permitted under the settlement). However, the Company s postretirement benefit plan obligation could significantly increase or decrease if payments were to cease, if litigation should ensue or if the parties should agree on a modified settlement.

Generally, contributions to the plans are not less than the minimum amounts required under the Employee Retirement Income Security Act of 1974 (ERISA) and not more than the maximum amount that can be deducted for federal income tax purposes. The plans assets are held by independent trustees and consist primarily of equity and fixed income securities.

The components of net periodic benefit cost (benefit) for the three months ended March 31, 2013 and 2012, are as follows:

	Three Months Ended March 31,	
Pension Benefits	**2013**	**2012**
Interest cost	$ 632	$ 725
Expected return on plan assets	(887)	(862)
Amortization of unrecognized net loss	131	126
	$ (124)	$ (11)

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Postretirement Benefit Plan	Three Months Ended March 31, 2013	2012
Service cost	$ 18	$ 16
Interest cost	657	755
Amortization of prior service cost	60	60
Amortization of unrecognized net loss	154	94
	$ 889	$ 925

Amortization of unrecognized net loss for the Company s defined benefit pension plans was reclassified to income, from accumulated other comprehensive income, of which $118 and $13 was recognized in cost of sales and selling, general and administrative expenses, respectively for the three months ended March 31, 2013 and $77 and $49 was recognized in cost of sales and selling, general and administrative expenses, respectively for the three months ended March 31, 2012. The Company made contributions of $0 and $1,044 to the Company s defined benefit pension plans for the three months ended March 31, 2013 and 2012, respectively. The Company expects to make $759 in contributions to its pension plans in 2013 to meet its minimum funding requirements.

Amortization of prior service cost for the Company s postretirement benefit plan was reclassified to income, from accumulated other comprehensive income, of which $57 and $3 was recognized in cost of sales and selling, general and administrative expenses, respectively for the three months ended March 31, 2013 and $56 and $4 was recognized in cost of sales and selling, general and administrative expenses, respectively for the three months ended March 31, 2012. Amortization of unrecognized net loss for the Company s postretirement benefit plan was reclassified to income, from accumulated other comprehensive income, of which $146 and $8 was recognized in cost of sales and selling, general and administrative expenses, respectively for the three months ended March 31, 2013 and $88 and $6 was recognized in cost of sales and selling, general and administrative expenses, respectively for the three months ended March 31, 2012. The Company made payments to the Company s postretirement benefit plan of $1,192 and $1,313 for the three months ended March 31, 2013 and 2012, respectively. If the Company continued to fund its postretirement benefit plan based on the expired settlement agreement the Company would make approximately $4,946 in payments to the plan in 2013.

The Company also maintains qualified defined contribution plans, which provide benefits to employees based on employee contributions, employee earnings or certain subsidiary earnings, with discretionary contributions allowed. Expenses related to these plans were $548 and $441 for the three months ended March 31, 2013 and 2012, respectively.

Note 14 Contingencies

The Company is involved in various warranty and repair claims and, in certain cases, related pending and threatened legal proceedings with its customers in the normal course of business. In the opinion of management, the Company s potential losses in excess of the accrued warranty and legal provisions, if any, are not expected to be material to the Company s consolidated financial condition, results of operations or cash flows.

On September 29, 2008, Bral Corporation, a supplier of certain railcar parts to the Company, filed a complaint against the Company in the U.S. District Court for the Western District of Pennsylvania (the Pennsylvania Lawsuit). The complaint alleges that the Company breached an exclusive supply agreement with Bral by purchasing parts from CMN Components, Inc. (CMN) and seeks damages in an unspecified amount, attorneys fees and other legal costs. On December 14, 2007, Bral sued CMN in the U.S. District Court for the Northern District of Illinois, alleging among other things that CMN interfered in the business relationship between Bral and the Company (the Illinois Lawsuit) and seeking damages in an unspecified amount, attorneys fees and other legal costs. On October 22, 2008, the Company entered into an Assignment of Claims Agreement with CMN under which CMN assigned to the Company its counterclaims against Bral in the Illinois Lawsuit and the Company agreed to defend and indemnify CMN against Bral s claims in that lawsuit. On March 4, 2013, Bral Corporation and the Company agreed to settle the Illinois Lawsuit and the Pennsylvania Lawsuit. The settlement resulted in a $3,884 reduction in litigation reserves, which favorably impacted the Company s results of operations for the three months ended March 31, 2013.

On a quarterly basis, the Company evaluates the potential outcome of all significant contingencies and estimates the likelihood that a future event or events will confirm the loss of an asset or incurrence of a liability. When information available prior to issuance of the Company s financial statements indicates that in management s judgment, it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements and the amount of loss can be reasonably estimated, the contingency is accrued by a charge to income.

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In addition to the foregoing, the Company is involved in certain other pending and threatened legal proceedings, including commercial disputes and workers compensation and employee matters arising out of the conduct of its business. While the ultimate outcome of these other legal proceedings cannot be determined at this time, it is the opinion of management that the resolution of these other actions will not have a material adverse effect on the Company s financial condition, results of operations or cash flows.

Note 15 Other Commitments

The Company leases certain property and equipment under long-term operating leases expiring at various dates through 2024. On February 19, 2013, the Company subleased space at a production facility located in the Shoals region of Alabama. The Company will operate approximately 543,399 square feet of a 2,150,000-square foot facility located on approximately 700 acres of land. The subleased premises will include production lines, an assembly area, storage and fabrication areas and office space. The initial term of the sublease expires on December 31, 2021 and, at the Company s option, subject to satisfaction of certain conditions, may be extended for an additional 120 months.

Future minimum lease payments at March 31, 2013 are as follows:

Nine months ending December 31, 2013	$ 6,276
Year ending December 31, 2014	8,865
Year ending December 31, 2015	9,285
Year ending December 31, 2016	9,046
Year ending December 31, 2017	8,748
Thereafter	44,511
	$ 86,731

The Company is liable for maintenance, insurance and similar costs under most of its leases and such costs are not included in the future minimum lease payments. Total rental expense for the three months ended March 31, 2013 and 2012, was approximately $782 and $1,822, respectively.

In addition, the Company has other non-cancelable agreements with its suppliers to purchase certain materials used in the manufacturing process. The commitments may vary based on the actual quantities ordered and be subject to the actual price when ordered. At March 31, 2013, the Company had purchase commitments under these agreements of $18,060 for the nine months ending December 31, 2013 and $17,300 for the year ending December 31, 2014.

Note 16 Earnings Per Share

Shares used in the computation of the Company s basic and diluted earnings per common share are reconciled as follows:

	Three Months Ended March 31,	
	2013	2012
Weighted average common shares outstanding	11,943,423	11,924,418
Dilutive effect of employee stock options and nonvested share awards		55,309
Weighted average diluted common shares outstanding	11,943,423	11,979,727

Weighted average diluted common shares outstanding include the incremental shares that would be issued upon the assumed exercise of stock options and the assumed vesting of nonvested share awards. Because the Company had a net loss for the three months ended March 31, 2013, all stock options and shares of nonvested share awards were anti-dilutive and not included in the above calculation for that period. For the three months ended March 31, 2012, 172,059 shares were not included in the weighted average common shares outstanding calculation as they were anti-dilutive.

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Note 17 Income Taxes

The income tax provision was $3,112 for the three months ended March 31, 2013, compared to $6,162 for the three months ended March 31, 2012. The addition of the Company s Shoals facility will change the mix of income from states in which it operates, resulting in changes in the Company s estimated state tax apportionment and effective state tax rates. The income tax provision for the three months ended March 31, 2013 included a provision of $1,354 resulting from applying these changes in effective state tax rates on the Company s deferred tax balances. Additionally, projected taxable income in certain states in which the Company operates may not be sufficient to realize the full value of net operating loss carryforwards. As a result, the income tax provision also includes the recognition of a valuation allowance of $2,503 against deferred tax assets related to net operating loss carryforwards in certain states in which the Company operates. These discrete tax provisions during the first quarter of 2013 were partially offset by $891 of discrete tax benefits recorded during the quarter associated with tax deductible goodwill. Excluding these discrete items, the Company s forecasted full-year effective tax rate applied against pre-tax income for the three months ended March 31, 2013 was 25.9%. The effective tax rate for the three months ended March 31, 2012 was 38.8% and was higher than the statutory U.S. federal income tax rate of 35% primarily due to a 4.9% blended state tax rate offset by 2.0% for the impact of tax deductible goodwill.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

You should read the following discussion in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this quarterly report on Form 10-Q. This discussion contains forward-looking statements that are based on management s current expectations, estimates and projections about our business and operations. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements. See Cautionary Statement Regarding Forward-Looking Statements.

We believe we are the leading manufacturer of aluminum-bodied railcars and coal cars in North America, based on the number of railcars delivered. Our railcar manufacturing facilities are located in Danville, Illinois; Roanoke, Virginia; and Cherokee, Alabama. Additionally, we refurbish and rebuild railcars and sell forged, cast and fabricated parts for all of the railcars we produce, as well as those manufactured by others. We provide railcar repair and maintenance, inspections and railcar fleet management services for all types of freight railcars through our FCRS and FCRMS subsidiaries. FCRS has repair and maintenance and inspection facilities in Clinton, Indiana, Grand Island, Nebraska and Hastings, Nebraska and services freight cars and unit coal trains utilizing key rail corridors in the Midwest and Western regions of the United States. We also lease freight cars through our JAIX Leasing Company subsidiary. Our primary customers are financial institutions, shippers and railroads.

In February 2013, we subleased approximately 25% of a state-of-the-art production facility located in the Shoals region of Alabama. Our Shoals production facility was designed to efficiently build a wide variety of railcar types and is an important part of our long-term growth strategy as we continue to expand our railcar product and service offerings outside of our traditional coal car market. While our Danville, Illinois and Roanoke, Virginia facilities will continue to support our coal car products, our Shoals facility will allow us to produce a broader variety of railcars in a cost-effective and efficient manner. In addition, the facility layout, automated production equipment, proximity to key suppliers and new supply agreements will increase our flexibility and make us more competitive in the marketplace. Production preparation has begun and we have installed a management team to operate the Shoals facility and are in the process of staffing and training the production work force. We have also procured our first order for the facility and are on track to begin production in the third quarter of 2013.

We have two reportable segments, Manufacturing and Services. Our Manufacturing segment includes new railcar manufacturing, used railcar sales, railcar leasing and major railcar rebuilds. Our Services segment includes general railcar repair and maintenance, inspections, parts sales and railcar fleet management services. Corporate includes administrative activities and all other non-operating costs.

Total orders for railcars in the first quarter of 2013 were 274 units, compared to 1,244 units, consisting of 1,164 new railcars and 80 used railcars, ordered in the first quarter of 2012. Our order activity for the first quarter of 2013 reflects continued uncertainty in the railcar market. Railcar deliveries totaled 1,073 units, consisting of 448 new railcars and 625 rebuilt railcars, in the first quarter of 2013, compared to 2,613 units, consisting of 2,146 new railcars, 80 used railcars sold and 387 leased railcars delivered, in the first quarter of 2012. Total backlog of unfilled orders was 2,082 units, consisting of 707 new railcars and 1,375 rebuilt railcars, at March 31, 2013, compared to 2,881 units, consisting of 981 new railcars and 1,900 rebuilt railcars, at December 31, 2012.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2013 compared to Three Months Ended March 31, 2012

Revenues

Our consolidated revenues for the three months ended March 31, 2013 were $87.6 million compared to $219.1 million for the three months ended March 31, 2012. Manufacturing segment revenues for the first quarter of 2013 were $77.7 million compared to $210.4 million for the first quarter of 2012. The decrease in Manufacturing segment revenues for the 2013 period compared to the 2012 period reflects the decrease in the number of railcars delivered and an unfavorable product mix. Our Manufacturing segment delivered 1,073 units, consisting of 448 new railcars and 625 rebuilt railcars, in the first quarter of 2013, compared to 2,613 units, consisting of 2,146 new railcars, 80 used railcars sold and 387 leased railcars, in the first quarter of 2012. Services segment revenues for the three months ended March 31, 2013 were $9.9 million compared to $8.6 million for the three months ended March 31, 2012. The increase in Services segment revenues for 2013 compared to 2012 reflects higher parts sales revenue that was partially offset by lower repair volumes.

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Gross Profit

Our consolidated gross profit for the three months ended March 31, 2013 was $5.0 million compared to $23.7 million for the three months ended March 31, 2012, representing a decrease of $18.7 million. The decrease in our consolidated gross profit for the first quarter of 2013 compared to the first quarter of 2012 reflects a decrease in gross profit from our Manufacturing segment of $19.4 million, which was partially offset by an increase in gross profit from our Services segment of $0.6 million. The decrease in gross profit for our Manufacturing segment for the first quarter of 2013 compared to the first quarter of 2012 reflects the decrease in deliveries, the negative impact of lower volumes on our operating efficiency, as well as product mix changes. The increase in gross profit for our Services segment for the first quarter of 2013 compared to 2012 reflects higher parts sales and an increase in higher margin program repairs. Our consolidated gross margin rate was 5.7% for the three months ended March 31, 2013 compared to 10.8% for the three months ended March 31, 2012.

Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses for the three months ended March 31, 2013 were $4.4 million compared to $8.7 million for the three months ended March 31, 2012, representing a decrease of $4.3 million. During the first quarter of 2013 we settled the Bral litigation (see note 14 to our condensed consolidated financial statements), which resulted in a $3.9 million reduction in litigation reserves, which was partially offset by $0.5 million of related legal expenses incurred during the quarter. Selling, general and administrative expenses for the three months ended March 31, 2013 also included decreases in compensation of $0.3 million and external services of $0.4 million. Manufacturing segment selling, general and administrative expenses for the three months ended March 31, 2013 were $1.7 million compared to $1.5 million for the three months ended March 31, 2012. Services segment selling, general and administrative expenses for the three months ended March 31, 2013 were $1.0 million compared to $0.9 million for the three months ended March 31, 2012. Corporate selling, general and administrative expenses for the three months ended March 31, 2013 were $1.8 million compared to $6.3 million for the three months ended March 31, 2012, reflecting the reduction in the litigation reserve (partially offset by related legal expenses) and decreases in compensation and external services.

Gain on Sale of Railcars Available for Lease

Gain on sale of railcars available for lease for the three months ended March 31, 2012 was $0.9 million and represented the gain on sale of 128 leased railcars (with a net book value of $10.4 million). Gain on sale of railcars available for lease for the three months ended March 31, 2013 was immaterial.

Operating Income

Our consolidated operating income for the three months ended March 31, 2013 was $0.6 million, compared to $16.0 million for the three months ended March 31, 2012. Operating income for the Manufacturing segment was $2.1 million for the three months ended March 31, 2013 compared to $22.7 million for the three months ended March 31, 2012. The reduction in operating income for the Manufacturing segment reflects the decrease in deliveries, the negative impact of lower volumes on our operating efficiency, as well as product mix changes. Services segment operating income was $1.3 million for the three months ended March 31, 2013 compared to $0.7 million for the three months ended March 31, 2012. The increase in Services segment operating income was primarily due to higher parts sales volume and higher volume of program repairs for the 2013 period compared to the 2012 period. Corporate costs were $2.8 million for the three months ended March 31, 2013 compared to $7.4 million for the three months ended March 31, 2012. The decrease in Corporate costs was primarily due to a reduction in the litigation reserve (partially offset by related legal expenses) and decreases in compensation and external services.

Interest Expense/Income

Interest expense (consisting of commitment fees on our revolving credit facility and letter of credit fees) was $0.1 million for each of the three months ended March 31, 2013 and 2012.

Income Taxes

The income tax provision was $3.1 million for the three months ended March 31, 2013, compared to $6.2 million for the three months ended March 31, 2012. The addition of our Shoals facility will change the mix of income from states in which we operate, resulting in changes in our estimated state tax apportionment and effective state tax rates. The income tax provision for the three months ended March 31, 2013 included a provision of $1.4 million resulting from applying these changes in effective state tax rates to our deferred tax balances. Additionally, projected taxable income in certain states in

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which we operate may not be sufficient to realize the full value of net operating loss carryforwards. As a result, the income tax provision also includes the recognition of a valuation allowance of $2.5 million against deferred tax assets related to net operating loss carryforwards in certain states in which we operate. These discrete tax provisions during the first quarter of 2013 were partially offset by $0.9 million of discrete tax benefits recorded during the quarter associated with tax deductible goodwill. Excluding these discrete items, our forecasted full-year effective tax rate applied against pre-tax income for the three months ended March 31, 2013 was 25.9%. The effective tax rate for the three months ended March 31, 2012 was 38.8% and was higher than the statutory U.S. federal income tax rate of 35% primarily due to a 4.9% blended state tax rate offset by 2.0% for the impact of tax deductible goodwill.

Net (Loss) Income

As a result of the foregoing, net loss was $2.6 million for the three months ended March 31, 2013, reflecting a decrease of $12.4 million from net income of $9.7 million for the three months ended March 31, 2012. For the three months ended March 31, 2013, our basic and diluted net loss per share was $0.22 on basic and diluted shares outstanding of 11,943,423.

For the three months ended March 31, 2012, our basic and diluted net income per share were $0.82 and $0.81, respectively, on basic and diluted shares outstanding of 11,924,418 and 11,979,727.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity for the three months ended March 31, 2013 and 2012, were our cash and cash equivalent balances on hand, our securities held to maturity, our lease fleet and our revolving credit facility. On July 29, 2010, we entered into a $30.0 million senior secured revolving credit facility pursuant to a Loan and Security Agreement dated as of July 29, 2010 (the Revolving Loan Agreement) among the Company and certain of its subsidiaries, as borrowers (collectively, the Borrowers), and Fifth Third Bank, as lender. The proceeds of the revolving credit facility can be used for general corporate purposes, including working capital. The Revolving Loan Agreement also contains a sub-facility for letters of credit not to exceed $20.0 million. As of each of March 31, 2013 and December 31, 2012, we had no borrowings or outstanding letters of credit under the revolving credit facility.

Revolving loans outstanding under the Revolving Loan Agreement will bear interest at a rate of LIBOR plus an applicable margin of 2.50% or at prime, as selected by the Borrowers. We have no expectations to draw upon the revolving credit facility. We are required to pay a non-utilization fee of 0.35% on the unused portion of the revolving loan commitment. Borrowings under the Revolving Loan Agreement are secured by our accounts receivable, inventory and certain other assets, and borrowing availability is tied to a borrowing base of eligible accounts receivable and inventory. The Revolving Loan Agreement has both affirmative and negative covenants, including, without limitation, a minimum tangible net worth covenant and limitations on indebtedness, liens and investments. The minimum tangible net worth covenant effectively limits potential dividends to $64.9 million as of March 31, 2013. The Revolving Loan Agreement also provides for customary events of default. As of March 31, 2013, we had borrowing capacity of $30.0 million under the Revolving Loan Agreement and we were in compliance with all of the covenants contained in the agreement. The Revolving Loan Agreement has a term ending on July 29, 2013. We are currently evaluating renewal or refinancing alternatives for our current Revolving Loan Agreement and expect to have a new agreement in place by July 29, 2013.

Our restricted cash balance was $3.0 million as of March 31, 2013 and $14.7 million as of December 31, 2012, and consisted of cash used to collateralize standby letters of credit with respect to performance guarantees and to support our worker s compensation insurance claims. The standby letters of credit outstanding as of March 31, 2013 are scheduled to expire at various dates through December 2013. We expect to establish restricted cash balances in future periods to minimize bank fees related to standby letters of credit while maximizing our ability to borrow under the revolving credit facility.

As of March 31, 2013, the value of railcars available for lease was $43.1 million. We may continue to offer railcars for lease to certain customers and pursue opportunities to sell leased railcars in our portfolio. Additional railcars available for lease may be funded by cash flows from operations or we may pursue a new credit facility or both, as we evaluate our liquidity and capital resources.

Based on our current level of operations and known changes in planned volume based on our backlog, we believe that our cash balances and our marketable securities, together with amounts available under our revolving credit facility, will be sufficient to meet our expected liquidity needs. Our long-term liquidity is contingent upon future operating performance and our ability to continue to meet financial covenants under our revolving credit facility and any other indebtedness. We may also require additional capital in the future to fund working capital as demand for railcars increases, organic growth opportunities, including new plant and equipment and development of railcars, joint ventures, international expansion and acquisitions, and these capital requirements could be substantial.

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Our long-term liquidity needs also depend to a significant extent on our obligations related to our pension and welfare benefit plans. We provide pension and retiree welfare benefits to certain salaried and hourly employees upon their retirement. Benefits under our pension plans are now frozen and will not be impacted by increases due to future service. The most significant assumptions used in determining our net periodic benefit costs are the discount rate used on our pension and postretirement welfare obligations and expected return on pension plan assets. As of December 31, 2012, our benefit obligation under our defined benefit pension plans and our postretirement benefit plan was $65.0 million and $69.3 million, respectively, which exceeded the fair value of plan assets by $12.2 million and $69.3 million, respectively.

We made no contributions to our defined benefit pension plans during the first three months of 2013 and expect to make approximately $0.8 million in total contributions to our defined benefit pension plans during 2013. The Pension Protection Act of 2006 provides for changes to the method of valuing pension plan assets and liabilities for funding purposes as well as minimum funding levels. Our defined benefit pension plans are in compliance with the minimum funding levels established in the Pension Protection Act. Funding levels will be affected by future contributions, investment returns on plan assets, growth in plan liabilities and interest rates. Assuming that the plans are fully funded as that term is defined in the Pension Protection Act, we will be required to fund the ongoing growth in plan liabilities on an annual basis.

We made payments to our postretirement benefit plan of $1.2 million during the three months ended March 31, 2013. A substantial portion of our postretirement benefit plan obligation relates to a settlement with the union representing employees at the Company s and its predecessors Johnstown manufacturing facilities. The terms of that settlement required us to pay until November 30, 2012 certain monthly amounts toward the cost of retiree health care coverage. We are currently engaged in negotiations related to the expired settlement agreement but no agreements have been reached. Therefore, the outcome of those negotiations and the impact on our postretirement benefit plan obligation cannot be determined at this time. If we continued to fund our postretirement benefit plan based on the expired settlement agreement we would make approximately $5.0 million in payments to the plan in 2013. However, the Company s postretirement benefit plan obligation could significantly increase or decrease if payments were to cease, if litigation should ensue or if the parties should agree on a modified settlement. We anticipate funding pension plan contributions and postretirement benefit plan payments with cash from operations and available cash.

Based upon our operating performance, capital requirements and obligations under our pension and welfare benefit plans, we may, from time to time, be required to raise additional funds through additional offerings of our common stock and through long-term borrowings. There can be no assurance that long-term debt, if needed, will be available on terms attractive to us, or at all. Furthermore, any additional equity financing may be dilutive to stockholders and debt financing, if available, may involve restrictive covenants. Our failure to raise capital if and when needed could have a material adverse effect on our results of operations and financial condition.

Contractual Obligations

The following table summarizes our contractual obligations as of March 31, 2013 and the effect that these obligations and commitments would be expected to have on our liquidity and cash flow in future periods:

	Payments Due by Period				
Contractual Obligations	**Total**	**1 Year**	**2-3 Years**	**4-5 Years**	**After 5 Years**
			(In thousands)		
Operating leases	$ 86,731	$ 8,496	$ 18,233	$ 17,694	$ 42,308
Material and component purchases	35,657	22,682	12,975		
Total	$ 122,388	$ 31,178	$ 31,208	$ 17,694	$ 42,308

Material and component purchases consist of non-cancelable agreements with suppliers to purchase materials used in the manufacturing process. Purchase commitments for aluminum are made at a fixed price and are typically entered into after a customer places an order for railcars. The estimated amounts above may vary based on the actual quantities and price.

The above table excludes $3.5 million related to a reserve for unrecognized tax benefits and accrued interest and penalties at March 31, 2013 because the timing of the payout of these amounts cannot be determined.

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We are also required to make minimum contributions to our pension plans and postretirement welfare plans as discussed above.

Cash Flows

The following table summarizes our net cash (used in) provided by operating activities, investing activities and financing activities for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31, 2013	2012
	(In thousands)	
Net cash (used in) provided by:		
Operating activities	$ (23,038)	$ 32,420
Investing activities	(1,618)	(5,166)
Financing activities	(776)	(735)
Total	$ (25,432)	$ 26,519

Operating Activities. Our net cash provided by or used in operating activities reflects net income or loss adjusted for non-cash charges and changes in operating assets and liabilities. Cash flows from operating activities are affected by several factors, including fluctuations in business volume, contract terms for billings and collections, the timing of collections on our contract receivables, processing of bi-weekly payroll and associated taxes, and payments to our suppliers. As some of our customers accept delivery of new railcars in train-set quantities, consisting on average of 120 to 135 railcars, variations in our sales lead to significant fluctuations in our operating profits and cash from operating activities. We do not usually experience business credit issues, although a payment may be delayed pending completion of closing documentation.

Our net cash used in operating activities for the three months ended March 31, 2013 was $23.0 million compared to net cash provided by operating activities of $32.4 million for the three months ended March 31, 2012. Net cash used in operating activities for the three months ended March 31, 2013 included decreases in accounts and contractual payables of $15.0 million and customer deposits of $8.7 million. Net cash provided by operating activities for the three months ended March 31, 2012 includes our income from operations and increases in accounts and contractual payables of $23.7 million. The increase in account and contractual payables for the three months ended March 31, 2012 primarily represents purchases of materials to support increased production levels and the timing of payment on those purchases.

Investing Activities. Net cash used in investing activities for the three months ended March 31, 2013 was $1.6 million compared to $5.2 million for the three months ended March 31, 2012. Net cash used in investing activities for the three months ended March 31, 2013 included purchases of property, plant and equipment of $13.4 million, which were partially offset by restricted cash withdrawals (net of deposits) of $11.7 million. Net cash used in investing activities for the three months ended March 31, 2012 included restricted cash deposits for collateralization of letters of credit of $14.5 million and purchases of property, plant and equipment of $1.2 million, which were partially offset by proceeds from the sale of railcars on operating leases of $10.4 million.

Financing Activities. Net cash used in financing activities for the three months ended March 31, 2013 was $0.8 million compared to net cash used in financing activities of $0.7 million for the three months ended March 31, 2012. Net cash used in financing activities primarily included cash dividends paid to our stockholders.

Capital Expenditures

Our capital expenditures were $13.4 million in the three months ended March 31, 2013 compared to $1.2 million in the three months ended March 31, 2012. Capital expenditures for the three months ended March 31, 2013 were primarily purchases of equipment for our Shoals facility. Capital expenditures for the three months ended March 31, 2012 were primarily cash outlays to maintain our existing facilities. Excluding unforeseen expenditures, management expects that total capital expenditures will be approximately $20.0 million for 2013, including capital expenditures for our Shoals facility.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains certain forward-looking statements including, in particular, statements about our plans, strategies and prospects. We have used the words may, will, expect, anticipate, believe, estimate, plan, intend and similar expressions in this r identify forward-looking statements. We have based these forward-looking statements on our current views with respect to future events and financial performance. Our actual results could differ materially from those projected in the forward-looking statements.

Our forward-looking statements are subject to risks and uncertainties, including:

- the cyclical nature of our business;
- adverse economic and market conditions;
- the highly competitive nature of our industry;
- our reliance upon a small number of customers that represent a large percentage of our sales;
- the variable purchase patterns of our customers and the timing of completion, delivery and customer acceptance of orders;
- fluctuating costs of raw materials, including steel and aluminum, and delays in the delivery of raw materials;
- our reliance on the sales of our coal cars;
- the risk of lack of acceptance of our new railcar offerings by our customers;
- our reported backlog may not indicate what our future sales will be;
- potential significant warranty claims;
- shortages of skilled labor;
- our ability to manage our health care and pension costs;
- risks relating to our relationship with our unionized employees and their unions;
- our ability to maintain relationships with our suppliers of railcar components;

the cost of complying with environmental laws and regulations; and

various covenants in the agreement governing our indebtedness that limit our management s discretion in the operation of our businesses. Our actual results could be different from the results described in or anticipated by our forward-looking statements due to the inherent uncertainty of estimates, forecasts and projections and may be better or worse than anticipated. Given these uncertainties, you should not rely on forward-looking statements. Forward-looking statements represent our estimates and assumptions only as of the date that they were made. We expressly disclaim any duty to provide updates to forward-looking statements, and the estimates and assumptions associated with them, in order to reflect changes in circumstances or expectations or the occurrence of unanticipated events except to the extent required by applicable securities laws. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed under Item 1A, Risk Factors in our annual report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We have a $30.0 million senior secured revolving credit facility, the proceeds of which can be used for general corporate purposes, including working capital. On an annual basis, a 1% change in the interest rate in our revolving credit facility will increase or decrease our interest expense by $10,000 for every $1.0 million of outstanding borrowings. As of March 31, 2013, there were no borrowings or outstanding letters of credit under the revolving credit facility.

The production of railcars and our operations require substantial amounts of aluminum and steel. The cost of aluminum, steel and all other materials (including scrap metal) used in the production of our railcars represents a significant majority of our direct manufacturing costs. Our business is subject to the risk of price increases and periodic delays in the delivery of aluminum, steel and other materials, all of which are beyond our control. Any fluctuations in the price or availability of aluminum or steel, or any other material used in the production of our railcars, may have a material adverse effect on our business, results of operations or financial condition. In addition, if any of our suppliers were unable to continue its business or were to seek bankruptcy relief, the availability or price of the materials we use could be adversely affected. When market conditions permit us to do so, we negotiate contracts with our customers that allow for variable pricing to protect us against future changes in the cost of raw materials. When raw material prices increase rapidly or to levels significantly higher than normal, we may not be able to pass price increases through to our customers, which could adversely affect our operating margins and cash flows.

We are not exposed to any significant foreign currency exchange risks as our general policy is to denominate foreign sales and purchases in U.S. dollars.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer and Principal Financial Officer, our management evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this quarterly report on Form 10-Q (the Evaluation Date). Based upon that evaluation, our Chief Executive Officer and Principal Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

On September 29, 2008, Bral Corporation, a supplier of certain railcar parts to us, filed a complaint against us in the U.S. District Court for the Western District of Pennsylvania (the Pennsylvania Lawsuit). The complaint alleges that we breached an exclusive supply agreement with Bral by purchasing parts from CMN Components, Inc. (CMN) and seeks damages in an unspecified amount, attorneys fees and other legal costs. On December 14, 2007, Bral sued CMN in the U.S. District Court for the Northern District of Illinois, alleging among other things that CMN interfered in the business relationship between Bral and us (the Illinois Lawsuit) and seeking damages in an unspecified amount, attorneys fees and other legal costs. On October 22, 2008, we entered into an Assignment of Claims Agreement with CMN under which CMN assigned to us its counterclaims against Bral in the Illinois Lawsuit and we agreed to defend and indemnify CMN against Bral s claims in that lawsuit. On March 4, 2013, Bral Corporation and the Company agreed to settle the Illinois Lawsuit and the Pennsylvania Lawsuit. The settlement resulted in a $3.9 million reduction in litigation reserves, which favorably impacted our results of operations for the three months ended March 31, 2013.

In addition to the foregoing, we are involved in certain other pending and threatened legal proceedings, including commercial disputes and workers compensation and employee matters arising out of the conduct of our business. While the ultimate outcome of these other legal proceedings cannot be determined at this time, it is the opinion of management that the resolution of these other actions will not have a material adverse effect on our financial condition, results of operations or cash flows.

Item 1A. Risk Factors.

There have been no material changes from the risk factors previously disclosed in Item 1A of our 2012 annual report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

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Item 5. Other Information.

None.

Item 6. Exhibits.

(a) Exhibits filed as part of this Form 10-Q:

10.1	Sublease, dated as of February 19, 2013, by and between Navistar, Inc. and FreightCar Alabama, LLC.*
10.2	Amendment to Sublease, dated as of March 11, 2013, by and among Teachers Retirement Systems of Alabama, Employees Retirement System of Alabama, Navistar, Inc. and FreightCar Alabama, LLC.*
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document **
101.SCH	XBRL Taxonomy Extension Schema Document **
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document **
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document **
101.LAB	XBRL Taxonomy Extension Label Linkbase Document **
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document **

* Confidential treatment has been requested for the redacted portions of this exhibit. A complete copy of the exhibit, including the redacted portions, has been filed separately with the Securities and Exchange Commission.

** Pursuant to Rule 406T of Regulation S-T, these Interactive Data Files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

FREIGHTCAR AMERICA, INC.

Date: May 10, 2013

By: /s/ Edward J. Whalen
Edward J. Whalen, Chief Executive Officer
(Principal Executive Officer)

By: /s/ Joseph E. McNeely
Joseph E. McNeely, President and
Chief Operating Officer (Principal Financial Officer)

By: /s/ Joseph J. Maliekel
Joseph J. Maliekel, Vice President, Corporate
Controller and Principal Accounting Officer

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