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

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 6-K

**Report of Foreign Private Issuer**

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

**the Securities Exchange Act of 1934**

**May 18, 2012**

**Commission File Number: 001-35408**

# AVG TECHNOLOGIES N.V.

**Gatwickstraat 9-39**

**1043 GL Amsterdam**

**The Netherlands**

**(Address of principal executive offices)**

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

Form 20-F x Form 40-F ¨

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

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

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**Item 1**

## INDEX TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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**AVG TECHNOLOGIES N.V.**

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

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

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

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

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

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**AVG TECHNOLOGIES N.V.**

**UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME**

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

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

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

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

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**AVG TECHNOLOGIES N.V.**

**UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF SHAREHOLDERS DEFICIT**

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

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

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

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

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

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**AVG TECHNOLOGIES N.V.**

**UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

(Expressed in thousands of U.S. Dollars)

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

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

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

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**AVG TECHNOLOGIES N.V.**

**Notes to Unaudited Condensed Consolidated Interim Financial Statements**

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

**Note 1. Organization and Basis of Presentation and Business**

***Organization and basis of presentation***

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

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

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

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

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

***Business***

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

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

OpenInstall, Inc. incorporated in California, United States.

**Note 2. Summary of Significant Accounting Policies**

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

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**Note 3. Acquisitions**

***2012 acquisitions***

*Purchase of OpenInstall, Inc.*

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

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

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

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

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

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

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

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

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

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**Note 4. Goodwill**

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

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

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

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

**Note 5. Intangible Assets**

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

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

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

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

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

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

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

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

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

**Note 6. Related party transactions**

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

**Note 7. Debt**

***Credit facility***

On March 15, 2011, the Company entered into a credit agreement with a group of financial institutions (the Credit Facility ). The Credit Facility provides a $235 million loan that is unconditionally and irrevocably guaranteed, jointly and severally, by certain AVG Technologies N.V. subsidiaries and is further secured by certain tangible and intangible assets of the Company and its subsidiaries with covenants obliging the Company to pledge new assets over a certain threshold. The Credit Facility bears interest at an adjusted LIBOR rate plus 6.0% with a LIBOR floor of 1.5%. Interest on the loan is payable quarterly in arrears. The Credit Facility contains financial covenants, measured at the end of each quarter, including a covenant to maintain a specified consolidated leverage ratio and interest coverage ratio (as defined in the Credit Facility). Additionally, the Credit Facility contains affirmative covenants, including covenants regarding the payment of taxes, maintenance of insurance, reporting requirements and compliance with applicable laws. The Credit Facility contains negative covenants, among other things, limiting the Company s ability to incur debt, make acquisitions, make certain restricted payments and sell assets. The events of default under the Credit Facility include payment defaults, cross defaults with certain other indebtedness, breaches of covenants, judgment defaults, bankruptcy events and the occurrence of a change in control (as defined in the Credit Facility). As of March 31, 2012, the Company was in compliance with all required covenants.

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

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

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

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

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

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

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

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

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

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**Note 8. Fair Value Measurements**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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**Note 9. Consolidated Balance Sheet Detail**

***Accrued expenses and other current liabilities***

Accrued expenses and other current liabilities consist of the following:

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

**Note 10. Other Income (Expense), Net**

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

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

**Note 11. Commitments and Contingencies**

***Lease commitments***

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

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

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

***Purchase obligations***

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

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

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

***Other Commitments***

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

***Litigation contingencies***

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

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**Note 12. Geographic and Major Customer Information**

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

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

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

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

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

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

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

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

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

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

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

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*Significant customers*

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

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

**Note 13. Ordinary and Preferred Shares**

*Ordinary shares*

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

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

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

*Preferred shares*

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

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

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

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

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

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*Initial public offering*

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

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

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

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

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

**Note 14. Share-Based Compensation**

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

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

*Share options*

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

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

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

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

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

***Shares issuable to TuneUp former owners***

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

**Note 15. Income Taxes**

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

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

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

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

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**Note 16. Earnings Per Share**

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

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

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

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

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

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

**Note 17. Subsequent Events**

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

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**Signatures**

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

| | |
|---|---|
| | AVG TECHNOLOGIES N.V. |
| Date: May 18, 2012 | By: /s/ John Little |
| | Name: John Little |
| | Title: Chief Financial Officer and Managing Director |