

Federated Core Trust III  
Form 40-17G/A  
April 03, 2013

FEDERATED FUNDS

Fidelity Bond – Follow Form Bond Filing

Contents of Submission:

- 1) Copy of the Investment Company Bond (“Bond”) received on February 7, 2013 as required by Rule 17g-1(g)(1)(ii)(a);\*
- 2) Copy of the Investment Company Bond – Follow Form Bond (“Bond”) received on March 26, 2013 as required by Rule 17g-1(g)(1)(ii)(a);
- 3) Copy of the resolutions of a majority of the Federated Funds’ Independent Trustees and Executive Committee of the Federated Funds approving the amount, type, form and coverage of the Bond, and the portion of the premium to be paid by such company as required by Rule 17g-1(g)(1)(ii)(b);\*
- 4) Copy of a statement showing the amount of the single insured bond which each investment company would have provided and maintained had it not been named as an insured under a joint insured bond as required by Rule 17g-1(g)(1)(ii)(c);\*

5) As required by Rule 17g-1(g)(1)(ii)(d), the period for which premiums have been paid is October 1, 2012 to October 1, 2013; and

6) Copy of the agreement between the investment company and all of the other named insureds as required by Rule 17g-1(g)(1)(ii)(e) and Rule 17g-1(f).\*

\*Incorporated by reference to Federated Funds Fidelity Bond filing submitted on February 15, 2013, SEC Accession No. 0001318148-13-000407.

**National Union Fire Insurance Company of Pittsburgh, Pa.**

A capital stock company

POLICY NUMBER: 01-274-24-55 REPLACEMENT OF POLICY NUMBER: 01-175-55-08

FOLLOW FORM BOND

DECLARATIONS

**Item 1. Named Insured:** FEDERATED INVESTORS INC

**Address:** 1001 LIBERTY AVE STE 2100

PITTSBURGH, PA 15222-3727

**Item 2. Bond Period:** From October 1, 2012 to October 1, 2013 at

12:01 A.M. Standard Time at the Address of the Named Insured shown above

**Item 3. Limit of Liability:** \$16,666,666 Excess of \$25,000,000 in the Aggregate of \$16,666,666 (See Rider #4)

**Item 4. Schedule of Primary Underlying Excess Policies (Herein Collectively The “Underlying Program”):**

**Primary Policy (herein “Primary Policy”):**

Insurer: Great American Insurance Company

Policy Number	Single Loss Limit	Aggregate Limit	Deductible	Policy Period
206-25-89-02	\$25,000,000	\$25,000,000	\$250,000	10/01/2012 – 10/01/2013

Insurer:

Policy Number	Single Loss Limit	Aggregate Limit	Policy Period
National Union Fire Insurance Company	\$16,666,666 part of	\$16,666,666	10/01/2012 – 10/01/2013

01-274-24-55 Westchester Fire	\$25,000,000		
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Insurance Company	\$8,333,334 part of	\$8,333,334	10/01/2012 – 10/01/2013
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DOX G24571718 003	\$25,000,000		
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63674 (10/95)

**Item 5.** The liability of the Underwriter is subject to the terms of the following riders attached hereto:

#1, #2, #3, #4, #5, #6, #7

**Item 6.** The Insured by the acceptance of this bond gives notice to the Underwriter terminating or canceling prior bond(s) or policy (ies) No (s) 01-195-68-61 such termination or cancellation to be effective as of the time this bond becomes effective.

**Item 7. Premium:** \$26,115

**IN WITNESS WHEREOF**, the Insurer has caused this policy to be signed on the Declarations Page by its President, a Secretary and a duly authorized representative of the Insurer.

SECRETARY AUTHORIZED REPRESENTATIVE

AUTHORIZED REPRESENTATIVE

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COUNTERSIGNATURE DATE COUNTERSIGNED AT

MARSH USA, INC.

1166 AVENUE OF THE AMERICAS

NEW YORK, NY 10036-3712

63674 (10/95)

NATIONAL UNION FIRE INSURANCE COMPANY

**OF PITTSBURGH, PA.**

A Capital Stock Company

175 Water Street

New York, New York 10038

Follow Form Bond

Various provisions in this bond restrict coverage. Read the entire bond carefully to determine rights, duties and what is and is not covered.

Throughout this bond, the words “you” and “your” refer to the Named Insured as shown in Item 1 of the Declarations. The words “we”, “us” and “our” refer to the Company providing this insurance.

In consideration of the payment of the premium and in reliance upon the statements in the Declarations and in the Application, we agree with you to provide coverage as follows:

## INSURING AGREEMENT

### I. Coverage

We will pay on your behalf the Ultimate Net Loss in excess of the Underlying Bond as shown in Item 4 of the Declarations, but only up to an amount not exceeding our Limit of Liability as shown in Item 3 of the Declarations and only after the issuers of the Underlying Bond have paid or have been held liable to pay the full amount of limits of insurance of the Underlying Bond. Except for the terms, definitions, conditions and exclusions of this bond, the coverage provided by this bond shall follow the terms, definitions, conditions and exclusions of the Underlying Bond as shown in Item 4 of the Declarations.

The Limit of Liability shown in Item 3 of the Declarations states the most we will pay regardless of the number of Insureds, claims made or suits brought or persons or organizations making claims or bringing suits.

II.

Definition

A.

Ultimate Net Loss

The term “Ultimate Net Loss” means the amount payable in settlement of the loss of the Insured after making deductions for all recoveries and for other valid and collectible bonds, excepting however the Underlying Bond shown in Item 4 of the Declarations.

63675 (10/95)

III.

Conditions

A. Maintenance of Limit of Liability of Underlying Bond

The limit of liability of the Underlying Bond shall be maintained in full force and effect during the period of this bond. Under no circumstances, including but not limited to bankruptcy, insolvency or inability to pay at the issue of the Underlying Bond, will we drop down and replace the Underlying Bond or assume any obligation of the Underlying Bond.

If you fail to comply with this requirement, we will only be liable to the same extent that we would have been had you fully complied with this requirement.

B.

Cancellation

1. You may cancel this bond. You must mail or deliver advance written notice to us stating when the cancellation is to take effect.

We may cancel this bond. If we cancel because of non-payment of premium, we must mail or deliver to you not less than ten (10) days advance written notice stating when the cancellation is to take effect. If we cancel for any other 2. reason, we must mail or deliver to you not less than ninety (90) days advance written notice stating when the cancellation is to take effect. Mailing that notice to you at your mailing address shown in Item 1 of the Declarations will be sufficient to prove notice.

3. The bond period will end on the day and hour stated in the cancellation notice.

4. If we cancel, earned premium will be calculated pro rata based on the time this bond was in force.

5. If you cancel, earned premium will be calculated based on short rate tables.

6. The first Named Insured in Item 1 of the Declarations shall act on behalf of all other Insureds with respect to the giving and receiving of notice of cancellation and the receipt of any refund that may become payable under this bond.

7. Any of these provisions that conflict with a law that controls the cancellation of the insurance in this bond is changed by this statement to comply with that law.



63675 (10/95)

C. Cancellation of Underlying Bond

This bond is canceled upon cancellation of the Underlying Bond. You must promptly notify us of the cancellation of the Underlying Bond. Such notice must be made when you send a notice of cancellation of the Underlying Bond to, or when you receive such notice from, the issuer of the Underlying Bond.

D. Changes to Underlying Bond

You must promptly notify us of any changes to the Underlying Bond which are made after its inception date. Any changes made to the Underlying Bond after its inception shall not affect the terms and conditions of this bond, which shall continue to apply as though no change had been made to the Underlying Bond.

E. Notice of Claim or Loss

You must notify us in writing as soon as practicable when you become aware of any claim or loss under the Underlying Bond or any bond which may give rise to any claim or loss under this bond.

F. Payment of Premium

The first Named Insured shown in Item 1 of the Declarations shall be responsible for payment of all premiums when due.

**In Witness Whereof**, we have caused this bond to be executed and attested, but this bond shall not be valid unless countersigned by one of our duly authorized representatives, where required by law.

SECRETARY AUTHORIZED REPRESENTATIVE

63675 (10/95)

**RIDER #1**

This rider, effective 12:01 October 1, 2012 forms a part of  
bond number 01-274-24-55  
issued to FEDERATED INVESTORS INC

by National Union Fire Insurance Company of Pittsburgh, Pa.

**RELIANCE UPON OTHER CARRIER'S APPLICATION**

In granting coverage under this policy, it is agreed that the **Insurer** has relied upon the statements and representations contained in the below referenced application (including materials submitted thereto and, if such application is a renewal application, all such previous policy applications, and their attachments and materials, for which this policy is a renewal or succeeds in time) as being accurate and complete. It is further understood and agreed that the **Organization** and the **Insureds** warrant and represent to the **Insurer** that the statements and representations made in such application were accurate on the date such representations and statement were so given and that in connection therewith the **Insureds** hereby reaffirm each and every statement made in our application to Chubb Group of Insurance Companies as accurate as of June 08, 2012 as if it was made to the **Insurer** on such date. All such statements and representations shall be deemed to be material to the risk assumed by the **Insurer**, are the basis of this policy and are to be considered as incorporated into this policy.

**TYPE OF POLICY APPLICATION**

Investment Company Bond Application

**CARRIER**

Great American Insurance Companies

DATE SIGNED

June 08, 2012

ALL OTHER TERMS, CONDITIONS AND LIMITATIONS REMAIN UNCHANGED.

AUTHORIZED REPRESENTATIVE

**RIDER #2**

This rider, effective 12:01 October 1, 2012 forms a part of  
bond number 01-274-24-55  
issued to FEDERATED INVESTORS INC

by National Union Fire Insurance Company of Pittsburgh, Pa.

**PENNSYLVANIA AMENDATORY ENDORSEMENT**

Wherever used in this endorsement: 1) "Insurer" means the insurance company which issued this policy; and 2) "named Insured" and "Insured" mean the Named Corporation, Named Entity, Named Organization, Named Sponsor, Named Insured, or Insured stated in the declarations page.

The following is added and supercedes any provision to the contrary:

**Cancellation/Nonrenewal**

Canceling a policy midterm is prohibited except if:

- 1) A condition material to insurability has changed substantially;
- 2) Loss of reinsurance or a substantial decrease in reinsurance has occurred;
- 3) Material misrepresentation by the Insured;
- 4) Policy was obtained through fraud;

- 5) The Insured has failed to pay a premium when due;
- 6) The Insured has requested cancellation;
- 7) Material failure to comply with terms;
- 8) Other reasons that the commissioner may approve.

Notice Requirements for Midterm Cancellation and Nonrenewal

Notice shall be mailed by registered or first class mail by the Insurer directly to the named Insured. Written notice will be forwarded directly to the named Insured at least sixty (60) days in advance of the termination date unless one or more of the following

exists:

The Insured has made a material misrepresentation which affects the insurability of the risk, in which case the  
1) prescribed written notice of cancellation shall be forwarded directly to the named Insured at least fifteen (15) days in advance of the effective date of termination.

The Insured has failed to pay a premium when due, whether the premium is payable directly to the Insurer or its  
2) agents or indirectly under a premium finance plan or extension of credit, in which case the prescribed written notice of cancellation shall be forwarded directly to the named insured at least fifteen (15) days in advance of the effective date of termination.

52165 (5/08)

**RIDER #2 (Continued)**

The policy was cancelled by the named Insured, in which case written notice of cancellation shall not be required and coverage shall be terminated on the date requested by the Insured. Nothing in these three sections shall restrict 3) the Insurer's right to rescind an insurance policy ab initio upon discovery that the policy was obtained through fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the Insurer.

The notice shall be clearly labeled "Notice of Cancellation" or "Notice of Nonrenewal". A midterm cancellation or nonrenewal notice shall state the specific reasons for the cancellation or nonrenewal. The reasons shall identify the condition or loss experience which caused the midterm cancellation or nonrenewal. The notice shall provide sufficient information or data for the Insured to correct the deficiency.

A midterm cancellation or nonrenewal notice shall state that, at the Insured's request, the Insurer shall provide loss information to the Insured for at least three years or the period of time during which the Insurer has provided coverage to the Insured, whichever is less. Loss information on the Insured shall consist of the following:

- 1) Information on closed claims, including date and description of occurrence, and amount of payments, if any;
- 2) Information on open claims, including date and description of occurrence, amount of payment, if any, and amount of reserves, if any;
- 3) Information on notices of occurrence, including date and description of occurrence and amount of reserves, if any.

The Insured's written request for loss information must be made within ten (10) days of the Insured's receipt of the midterm cancellation or nonrenewal notice. The Insurer shall have thirty (30) days from the date of receipt of the Insured's written request to provide the requested information.

**Notice of Increase in Premium**



The Insurer shall provide not less than thirty (30) days notice to the Insured of an increase in renewal premium. The notice of renewal premium increase will be mailed or delivered to the Insured's last known address. If notice is mailed, it will be by registered or first class mail.

Return of Unearned Premium

Cancellation Initiated By Insurer - Unearned premium must be returned to the Insured not later than ten (10) business days after the effective date of termination.

52165 (5/08)

**RIDER #2 (Continued)**

Cancellation Initiated by Insured - Unearned premium must be returned to the Insured not later than thirty (30) days after the effective date of termination.

ALL OTHER TERMS, CONDITIONS AND EXCLUSIONS REMAIN UNCHANGED.

AUTHORIZED REPRESENTATIVE

52165 (5/08)

**RIDER #3**

This rider, effective 12:01 October 1, 2012 forms a part of

bond number 01-274-24-55

issued to FEDERATED INVESTORS INC

by National Union Fire Insurance Company of Pittsburgh, Pa.

**DROP DOWN RIDER**

It is agreed that:

It is a condition of the attached bond that the underlying bond(s) shall be maintained in full effect in the amount of 1. **\$25,000,000** during the period of the attached bond except for any reduction in the Aggregate Limit(s) of Liability contained therein solely by payment of claims.

If, by reason of the payment of any claim or claims, by Underwriters during the period of the attached bond which reduces the Aggregate Limit(s) of Liability of the underlying bond, the attached bond shall apply excess of the 2. reduced Aggregate Limit(s) of Liability of the underlying bond. In the event of the exhaustion of the underlying limit(s), the attached bond shall continue in force as primary insurance, and the Deductible set forth in the Schedule of the primary bond shall apply to the attached bond.

3. However, in the event of any reinstatement of the underlying Aggregate Limit(s) of Liability, the attached bond shall apply as excess of the reinstated underlying Aggregate Limit(s) of Liability.

4. Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, limitations, conditions or agreements of the attached bond other than as above stated.

AUTHORIZED REPRESENTATIVE

**RIDER #4**

This rider, effective 12:01 October 1, 2012 forms a part of

bond number 01-274-24-55

issued to FEDERATED INVESTORS INC

by National Union Fire Insurance Company of Pittsburgh, Pa.

**CO-SURETY RIDER**

It is agreed that:

1. The term "Underwriter" as used in the attached bond shall be construed to mean, unless otherwise specified in the rider, all of the Companies executing the attached bond,

2. Each of said companies shall be liable only for such proportion of any Single Loss under the attached bond as the amount underwritten by such Company as specified in the Schedule forming a part hereof, bears to the Aggregate Limits of Liability of the attached bond, but in no event shall any of said Companies be liable for an amount greater than that underwritten by it.

3. In the absence of a request from any of said Companies to pay premium directly to it, premiums for the attached bond may be paid to the Controlling Company for the account of all said companies.

4. In the absence of a request from any of said Companies that notice of claim and proof of loss be given to or filed directly with it, the giving of such notice to and the filing of such proof with, the Controlling Company shall be deemed to be in compliance with the conditions of the attached bond for the giving of notice of loss and the filing of proof of loss, if given and filed in accordance with said conditions.

5.

The Controlling Company may give notice in accordance with the terms of the attached bond, terminating or canceling the attached bond as an entirety or as to any Employee, and any notice so given shall terminate or cancel the liability of all said Companies.

Any Company other than the Controlling Company may give notice in accordance with the terms of the attached  
6. bond, terminating or canceling the entire liability of such other Company under the attached bond or as to any Employee.

In the absence of a request from any of said Companies that notice of termination or cancellation by the Insured of the attached bond in its entirety be given to or filed directly with it, the giving of such notice in accordance with the terms of the attached bond to the Controlling Company shall terminate or cancel the liability of all of said  
7. Companies as an entirety. The Insured may terminate or cancel the entire liability of any Company, other than the Controlling Company, under the attached bond by giving notice of such termination or cancellation to such other Company, and shall send copy of such notice to the Controlling Company.

**RIDER #4 (Continued)**

In the event of the termination or cancellation of the attached bond as an entirety, no Company shall be liable to the  
8. Insured for a greater proportion of any return premium due the Insured than the amount underwritten by such  
Company bears to the Aggregate Limit of Liability of the attached bond.

In the event of termination or cancellation of the attached bond as to any Company, such Company alone shall be  
9. liable to the insured for any return premium due the Insured on account of such termination or cancellation. The  
termination or cancellation of the attached bond as to any Company other than the Controlling Company shall not  
terminate or cancel or otherwise affect the liability of the other Companies under the attached bond.

Controlling Company

Underwritten for the sum of \$16,666,666 part of National Union Fire Insurance  
\$25,000,000 Single Loss Limit of Liability/Aggregate Company of Pittsburgh, Pa.  
of Pittsburgh, Pa.

By: Authorized Representative

Underwritten for the sum of \$8,333,334 part of Westchester Fire Insurance  
\$25,000,000 Single Loss Limit of Liability/Aggregate Company

Authorized Representative

AUTHORIZED REPRESENTATIVE

**RIDER #5**

This rider, effective 12:01 October 1, 2012 forms a part of  
bond number 01-274-24-55  
issued to FEDERATED INVESTORS INC

by National Union Fire Insurance Company of Pittsburgh, Pa.

**NOTICE OF CLAIM**

**(REPORTING BY E-MAIL)**

In consideration of the premium charged, it is hereby understood and agreed as follows:

Email Reporting of Claims: In addition to the postal address set forth for any Notice of Claim Reporting under this policy, such notice may also be given in writing pursuant to the policy's other terms and conditions to the Insurer by email at the following email address:

c-claim@chartisinsurance.com

Your email must reference the policy number for this policy. The date of the Insurer's receipt of the emailed notice shall constitute the date of notice.

In addition to Notice of Claim Reporting via email, notice may also be given to the Insurer by mailing such notice to: Chartis, Financial Lines Claims, P.O. Box 25947, Shawnee Mission, KS 66225 or faxing such notice to (866)



227-1750.

2. Definitions : For this endorsement only, the following definitions shall apply:

(a) "Insurer" means the "Insurer," "Underwriter" or "Company" or other name specifically ascribed in this policy as the insurance company or underwriter for this policy.

"Notice of Claim Reporting" means "notice of claim/circumstance," "notice of loss" or other reference in the policy (b) designated for reporting of claims, loss or occurrences or situations that may give rise or result in loss under this policy.

(c) "Policy" means the policy, bond or other insurance product to which this endorsement is attached.

99758 (08/08)

**RIDER #5 (Continued)**

3. This endorsement does not apply to any Kidnap & Ransom/Extortion Coverage Section, if any, provided by this policy.

ALL OTHER TERMS, CONDITIONS AND EXCLUSIONS REMAIN UNCHANGED.

AUTHORIZED REPRESENTATIVE

99758 (08/08)

**RIDER #6**

This rider, effective 12:01 October 1, 2012 forms a part of  
bond number 01-274-24-55  
issued to FEDERATED INVESTORS INC

by National Union Fire Insurance Company of Pittsburgh, Pa.

**THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.**

**COVERAGE TERRITORY ENDORSEMENT**

Payment of loss under this policy shall only be made in full compliance with all United States of America economic or trade sanction laws or regulations, including, but not limited to, sanctions, laws and regulations administered and enforced by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC").

AUTHORIZED REPRESENTATIVE

89644 (07/05)

**RIDER #7**

This rider, effective 12:01 October 1, 2012 forms a part of

bond number 01-274-24-55

issued to FEDERATED INVESTORS INC

by National Union Fire Insurance Company of Pittsburgh, Pa.

**FORMS INDEX ENDORSEMENT**

The contents of the Policy is comprised of the following forms:

FORM NUMBER	EDITION DATE	FORM TITLE
63674	10/95	FOLLOW FORM BOND – DEC-PAGE
63675	10/95	FOLLOW FORM BOND – GUTS
MNSCPT		RELIANCE UPON OTHER CARRIER'S APPLICATION
52165	05/08	PENNSYLVANIA AMENDATORY ENDORSEMENT CANCELLATION/NONRENEWAL
MNSCPT		DROP DOWN RIDER
MNSCPT		CO-SURETY RIDER
99758	08/08	NOTICE OF CLAIM (REPORTING BY E-MAIL)
89644	07/05	COVERAGE TERRITORY ENDORSEMENT
78859	10/01	FORMS INDEX ENDORSEMENT

ALL OTHER TERMS, CONDITIONS AND EXCLUSIONS REMAIN UNCHANGED.

AUTHORIZED REPRESENTATIVE

78859 (10/01)

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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**

\$      \$      \$      \$      \$

## Additional Paid-

	Ordinary Shares	Amount	in Capital (Distributions in Excess of Capital)	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders Deficit
<b>Balances, January 1, 2012</b>		\$	\$ (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

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<b>Balances, March 31, 2012</b>	54,382,591	\$ 722	\$ (136,584)	\$ (5,250)	\$ 80,146	\$ (60,966)
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The accompanying notes form an integral part of these condensed consolidated interim financial statements.

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**Table of Contents****AVG TECHNOLOGIES N.V.****UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

(Expressed in thousands of U.S. Dollars)

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2012</b>
<b>OPERATING ACTIVITIES:</b>		
<b>Net income</b>	\$ 17,977	\$ 10,907
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
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)
<b>Net change in assets and liabilities, excluding effects of acquisitions:</b>		
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)
<b>Net cash provided by operating activities</b>	<b>29,369</b>	<b>20,600</b>
<b>INVESTING ACTIVITIES:</b>		
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)
<b>Net cash used in investing activities</b>	<b>(6,710)</b>	<b>(5,786)</b>
<b>FINANCING ACTIVITIES:</b>		
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)
<b>Net cash provided by financing activities</b>	<b>2,425</b>	<b>30,448</b>
Effect of exchange rate fluctuations on cash and cash equivalents	2,166	1,527
<b>Change in cash and cash equivalents</b>	<b>27,250</b>	<b>46,789</b>
<b>Beginning cash and cash equivalents</b>	<b>63,146</b>	<b>60,740</b>
<b>Ending cash and cash equivalents</b>	<b>\$ 90,396</b>	<b>\$ 107,529</b>

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

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**Table of Contents**

**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.

**Table of Contents****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 <sup>(1)</sup>	\$ 1,225
Intangible assets <sup>(2)</sup>	3,200
Goodwill <sup>(3)</sup>	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.

<b>Components of consideration:</b>	
Cash consideration paid	\$ 4,049
Deferred purchase consideration <sup>(4)</sup>	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.

**Table of Contents****Note 4. Goodwill**

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

	<b>Total</b>
Net balance as of January 1, 2012	\$ 71,367
Goodwill acquired through acquisitions <sup>(1)</sup>	1,224
Effects of foreign currency exchange	1,240
 Net balance as of March 31, 2012 <sup>(2)</sup>	 \$ 73,831

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

<sup>(2)</sup> 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**

	<b>December 31, 2011</b>			<b>Weighted-Average Remaining Useful Life</b>
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>	
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	
	<b>March 31, 2012</b>			<b>Weighted-Average Remaining Useful Life</b>
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>	
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:

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

<sup>(1)</sup> 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. ( CVPI ), effective as of February 1, 2011, under which Robert Cohen, a contractor to CVPI, 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 CVPI 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 CVPI 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

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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:

	<b>March 31, 2012</b>
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

**Table of Contents****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			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Foreign currency contracts <sup>(1)</sup>	\$	\$ 161	\$	\$ 161
Total assets measured at fair value	\$	\$ 161	\$	\$ 161
<b>Liabilities:</b>				
Contingent purchase consideration liabilities <sup>(2)</sup>	\$	\$	\$ 12,835	\$ 12,835
Total liabilities measured at fair value	\$	\$	\$ 12,835	\$ 12,835
	March 31, 2012			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Foreign currency contracts <sup>(1)</sup>	\$	\$ 398	\$	\$ 398
Total assets measured at fair value	\$	\$ 398	\$	\$ 398
<b>Liabilities:</b>				
Contingent purchase consideration liabilities <sup>(2)</sup>	\$	\$	\$ 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 <sup>(3)</sup>	142	152
Effects of foreign currency exchange	29	332
Payments of contingent consideration	(1,275)	
Fair value - end of period	\$ 3,640	\$ 13,319

<sup>(3)</sup> 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.

**Table of Contents****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
<b>Total minimum future lease payments</b>	<b>\$ 19,839</b>

**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
<b>Total minimum future purchase obligations</b>	<b>\$ 2,988</b>

**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.

**Table of Contents****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:

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

<sup>(1)</sup> 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:

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

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

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

<sup>(1)</sup> 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.

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	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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**Table of Contents****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):

Business partner :	Three Months Ended March 31,	
	2011	2012
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	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		
<b>Total</b>	<b>213,000,000</b>	<b>36,000,000</b>	<b>\$ 476</b>

	March 31, 2012		
	Shares Authorized	and Outstanding	Par value
Ordinary shares	120,000,000	54,382,591	\$ 722
<b>Total</b>	<b>120,000,000</b>	<b>54,382,591</b>	<b>\$ 722</b>

**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		Carrying value
	Shares Authorized	and Outstanding	

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

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

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**Table of Contents****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.

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

**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.

**Table of Contents****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:

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

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

**Note 17. Subsequent Events**

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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