

IAC/INTERACTIVECORP

Form 10-Q

November 08, 2012

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As filed with the Securities and Exchange Commission on November 8, 2012

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2012

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-20570

IAC/INTERACTIVECORP

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

555 West 18th Street, New York, New York 10011

(Address of registrant's principal executive offices)

(212) 314-7300

(Registrant's telephone number, including area code)

59-2712887

(I.R.S. Employer

Identification No.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Non-accelerated filer

Large accelerated filer

Accelerated filer

(Do not check if a smaller

Smaller reporting company

reporting company)

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

As of October 19, 2012, the following shares of the registrant's common stock were outstanding:

Common Stock

82,665,959

Class B Common Stock

5,789,499

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Total outstanding Common Stock

88,455,458

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of October 19, 2012 was \$4,319,523,212. For the purpose of the foregoing calculation only, all directors and executive officers of the registrant are assumed to be affiliates of the registrant.

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## PART I

## FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

## IAC/INTERACTIVECORP

## CONSOLIDATED BALANCE SHEET

(Unaudited)

	September 30, 2012	December 31, 2011
	(In thousands, except share data)	
<b>ASSETS</b>		
Cash and cash equivalents	\$501,779	\$704,153
Marketable securities	138,926	165,695
Accounts receivable, net of allowance of \$8,071 and \$7,309, respectively	220,735	177,030
Other current assets	126,787	112,255
Total current assets	988,227	1,159,133
Property and equipment, net	272,317	259,588
Goodwill	1,556,833	1,358,524
Intangible assets, net	491,485	378,107
Long-term investments	169,728	173,752
Other non-current assets	103,985	80,761
<b>TOTAL ASSETS</b>	<b>\$3,582,575</b>	<b>\$3,409,865</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Current maturities of long-term debt	\$15,844	\$—
Accounts payable, trade	86,810	64,398
Deferred revenue	159,498	126,297
Accrued expenses and other current liabilities	362,917	343,490
Total current liabilities	625,069	534,185
Long-term debt, net of current maturities	80,000	95,844
Income taxes payable	479,693	450,533
Deferred income taxes	304,889	302,213
Other long-term liabilities	33,332	16,601
Redeemable noncontrolling interests	58,956	50,349
Commitments and contingencies		
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock \$.001 par value; authorized 1,600,000,000 shares; issued 248,747,173 and 234,100,950 shares, respectively, and outstanding 82,646,948 and 77,126,881 shares, respectively	249	234
Class B convertible common stock \$.001 par value; authorized 400,000,000 shares; issued 16,157,499 shares and outstanding 5,789,499 shares	16	16
Additional paid-in capital	11,627,593	11,280,173
Accumulated deficit	(359,258)	(477,785)
Accumulated other comprehensive loss	(11,891)	(12,443)
Treasury stock 176,468,225 and 167,342,069 shares, respectively	(9,308,315)	(8,885,146)
Total IAC shareholders' equity	1,948,394	1,905,049
Noncontrolling interests	52,242	55,091

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Total shareholders' equity	2,000,636	1,960,140
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$3,582,575	\$3,409,865

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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IAC/INTERACTIVECORP  
CONSOLIDATED STATEMENT OF OPERATIONS  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands, except per share data)			
Revenue	\$714,470	\$516,884	\$2,035,682	\$1,462,501
Costs and expenses:				
Cost of revenue (exclusive of depreciation shown separately below)	261,932	188,642	722,193	542,832
Selling and marketing expense	236,763	153,296	669,671	426,764
General and administrative expense	94,876	84,628	278,895	241,472
Product development expense	24,504	21,556	71,101	56,558
Depreciation	13,150	17,484	37,490	43,373
Amortization of intangibles	5,212	4,538	18,058	9,195
Total costs and expenses	636,437	470,144	1,797,408	1,320,194
Operating income	78,033	46,740	238,274	142,307
Equity in losses of unconsolidated affiliates	(3,298)	) (15,078)	) (28,208)	) (25,677)
Other (expense) income, net	(944)	) 4,308	(1,267)	) 10,697
Earnings from continuing operations before income taxes	73,791	35,970	208,799	127,327
Income tax (provision) benefit	(27,606)	) 32,003	(83,360)	) 6,444
Earnings from continuing operations	46,185	67,973	125,439	133,771
Loss from discontinued operations, net of tax	(5,624)	) (3,922)	) (6,581)	) (8,358)
Net earnings	40,561	64,051	118,858	125,413
Net loss (earnings) attributable to noncontrolling interests	156	922	(331)	) 54
Net earnings attributable to IAC shareholders	\$40,717	\$64,973	\$118,527	\$125,467
Per share information attributable to IAC shareholders:				
Basic earnings per share from continuing operations	\$0.52	\$0.81	\$1.46	\$1.52
Diluted earnings per share from continuing operations	\$0.49	\$0.73	\$1.35	\$1.41
Basic earnings per share	\$0.46	\$0.77	\$1.38	\$1.43
Diluted earnings per share	\$0.43	\$0.69	\$1.28	\$1.32
Dividends declared per share	\$0.24	\$—	\$0.48	\$—
Non-cash compensation expense by function:				
Cost of revenue	\$1,550	\$1,449	\$4,775	\$3,682
Selling and marketing expense	1,386	1,241	3,512	3,476
General and administrative expense	18,850	18,118	52,378	53,444
Product development expense	1,565	2,077	4,593	5,451
Total non-cash compensation expense	\$23,351	\$22,885	\$65,258	\$66,053

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

IAC/INTERACTIVECORP  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands)			
Net earnings	\$40,561	\$64,051	\$118,858	\$125,413
Other comprehensive income (loss), net of tax:				
Change in foreign currency translation adjustment	14,609	(39,619 )	(4,940 )	(29,631 )
Change in net unrealized (losses) gains on available-for-sale securities	(8,758 )	(16,624 )	4,685	18,192
Total other comprehensive income (loss)	5,851	(56,243 )	(255 )	(11,439 )
Comprehensive income	46,412	7,808	118,603	113,974
Comprehensive (income) loss attributable to noncontrolling interests	(2,026 )	7,078	476	6,084
Comprehensive income attributable to IAC shareholders	\$44,386	\$14,886	\$119,079	\$120,058

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IAC/INTERACTIVECORP  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
(Unaudited)

	Redeemable Noncontrolling Interests	Common Stock \$.001 Par Value		Class B Convertible Common Stock \$.001 Par Value		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	Total IAC Shareholders' Equity	No Int
		\$	Shares	\$	Shares						
Balance as of December 31, 2011	\$50,349	\$234	234,101	\$16	16,157	\$11,280,173	\$(477,785)	\$(12,443)	\$(8,885,146)	\$1,905,049	\$55,
Net (loss) earnings for the nine months ended September 30, 2012	(1,311 )	—	—	—	—	—	118,527	—	—	118,527	1,64
Other comprehensive (loss) income, net of tax	(485 )	—	—	—	—	—	—	552	—	552	(322
Non-cash compensation expense	—	—	—	—	—	63,235	—	—	—	63,235	2,02
Issuance of common stock upon exercise of stock options, vesting of restricted stock units and other, net of withholding taxes	—	3	2,918	—	—	35,958	—	—	—	35,961	—
Income tax benefit related to the exercise of stock options, vesting of restricted stock units and other	—	—	—	—	—	18,865	—	—	—	18,865	—
Issuance of common stock upon the exercise of	—	12	11,728	—	—	284,099	—	—	—	284,111	—

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warrants												
Dividends	—	—	—	—	—	(45,841)	) —	—	—	(45,841)	) —	
Purchase of treasury stock	—	—	—	—	—	—	—	—	(423,169)	(423,169)	) —	
Purchase of redeemable noncontrolling interests	(2,955)	) —	—	—	—	—	—	—	—	—	—	
Fair value of redeemable noncontrolling interests adjustment	8,896	—	—	—	—	(8,896)	) —	—	—	(8,896)	) —	
Transfer from noncontrolling interests to redeemable noncontrolling interests	7,192	—	—	—	—	—	—	—	—	—	—	(7,192)
Other	(2,730)	) —	—	—	—	—	—	—	—	—	—	1,000
Balance as of September 30, 2012	\$58,956	\$249	248,747	\$16	16,157	\$11,627,593	\$(359,258)	\$(11,891)	\$(9,308,315)	\$1,948,394	\$52,000	

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.



IAC/INTERACTIVECORP  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
	(In thousands)	
Cash flows from operating activities attributable to continuing operations:		
Net earnings	\$ 118,858	\$ 125,413
Less: Discontinued operations, net of tax	(6,581	) (8,358
Earnings from continuing operations	125,439	133,771
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities attributable to continuing operations:		
Non-cash compensation expense	65,258	66,053
Depreciation	37,490	43,373
Amortization of intangibles	18,058	9,195
Deferred income taxes	5,410	(44,548
Equity in losses of unconsolidated affiliates	28,208	25,677
Gain on sales of investments	(1,876	) (1,861
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(16,443	) (27,494
Other current assets	(9,749	) 9,005
Accounts payable and other current liabilities	18,700	15,512
Income taxes payable	29,479	6,173
Deferred revenue	10,575	26,668
Other, net	13,058	8,042
Net cash provided by operating activities attributable to continuing operations	323,607	269,566
Cash flows from investing activities attributable to continuing operations:		
Acquisitions, net of cash acquired	(377,123	) (278,469
Capital expenditures	(32,363	) (27,346
Proceeds from maturities and sales of marketable debt securities	79,353	528,170
Purchases of marketable debt securities	(47,902	) (154,718
Proceeds from sales of long-term investments	12,744	14,021
Purchases of long-term investments	(10,031	) (84,441
Other, net	(12,264	) (11,436