interclick, inc.
Form 10-Q
November 12, 2010

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

FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from ________________ to ________________

Commission file number 001-34523

interclick, inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	01-0692341 (I.R.S. Employer Identification No.)
11 West 19 th Street, 10 th Floor, New York, NY (Address of principal executive offices)	10011 (Zip Code)

Registrant's telephone number: (646) 722-6260

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 x No o

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 o No o

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

Large accelerated filer o Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company x

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

Class	Outstanding at November 11, 2010
Common Stock, $0.001 par value per share	23,969,011 shares

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INTERCLICK, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2010 (Unaudited)	December 31, 2009 (See Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 10,992,013	$ 12,653,958
Restricted cash	998,097	-
Accounts receivable, net of allowance for doubtful accounts of $453,490 and $383,188, respectively	30,135,090	21,631,305
Line of credit reserve	-	1,052,167
Deferred taxes, current portion	828,950	955,471
Prepaid expenses and other current assets	377,086	367,183
Total current assets	43,331,236	36,660,084
Restricted cash	296,090	-
Property and equipment, net of accumulated depreciation and amortization of $1,100,014 and $597,288, respectively	1,724,268	988,899
Intangible assets, net of accumulated amortization of $1,027,850 and $909,350, respectively	302,833	421,333
Goodwill	7,909,571	7,909,571
Investment in available-for-sale marketable securities	119,741	715,608
Deferred line of credit costs, net of accumulated amortization of $3,271 and $35,028, respectively	122,570	4,972
Deferred taxes, net of current portion	3,118,416	2,579,568
Other assets	207,573	192,179
Total assets	$ 57,132,298	$ 49,472,214
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 12,833,212	$ 10,934,236
Accrued expenses (includes accrued compensation of $2,220,083 and $2,241,731, respectively)	3,227,108	3,164,044
Line of credit payable	5,200,000	5,260,834
Income taxes payable	790,375	515,306
Obligations under capital leases, current portion	351,810	161,940
Deferred rent, current portion (includes cease use liability of $75,603 at September 30, 2010)	86,440	3,508
Warrant derivative liability	-	69,258
Total current liabilities	22,488,945	20,109,126
Obligations under capital leases, net of current portion	514,114	338,562
Deferred rent (includes cease use liability of $326,434 at September 30, 2010)	632,102	83,823
Total liabilities	23,635,161	20,531,511

Commitments and contingencies				
Stockholders’ equity:				
Preferred stock, $0.001 par value; 10,000,000 shares authorized, zero shares issued and outstanding		-		-
Common stock, $0.001 par value; 140,000,000 shares authorized, 23,837,335 and 23,632,707 issued and outstanding, respectively		23,837		23,633
Additional paid-in capital		45,414,208		42,229,293
Accumulated deficit		(11,940,908)		(13,312,223)
Total stockholders’ equity		33,497,137		28,940,703
Total liabilities and stockholders’ equity	$	57,132,298	$	49,472,214

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

INTERCLICK, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
Revenues	$ 26,442,854	$ 14,395,236	$ 62,304,594	$ 33,467,213
Cost of revenues	14,292,265	7,141,926	34,145,933	17,498,860
Gross profit	12,150,589	7,253,310	28,158,661	15,968,353
Operating expenses:				
General and administrative	4,143,866	3,348,581	11,248,139	7,921,964
Sales and marketing	3,563,827	2,320,507	8,767,724	5,471,950
Technology support	1,517,621	862,535	4,276,561	2,244,417
Amortization of intangible assets	39,500	49,760	118,500	149,280
Total operating expenses	9,264,814	6,581,383	24,410,924	15,787,611
Operating income from continuing operations	2,885,775	671,927	3,747,737	180,742
Other income (expense):				
Interest income	7,682	-	24,701	12
Warrant derivative liability income (expense)	-	(274,725)	21,413	(506,786)
Loss on sale of available-for-sale securities	-	-	-	(36,349)
Other than temporary impairment of available-for-sale securities	(126,080)	-	(584,618)	-
Interest expense	(19,429)	(245,854)	(196,375)	(486,127)
Total other expense	(137,827)	(520,579)	(734,879)	(1,029,250)
Income (loss) from continuing operations before income taxes	2,747,948	151,348	3,012,858	(848,508)
Income tax expense	(1,502,417)	-	(1,641,543)	-
Income (loss) from continuing operations	1,245,531	151,348	1,371,315	(848,508)
Discontinued operations:				
Loss on sale of discontinued operations, net of income taxes	-	-	-	(1,220)
Loss from discontinued operations	-	-	-	(1,220)
Net income (loss)	1,245,531	151,348	1,371,315	(849,728)

Other comprehensive income (loss):								
Unrealized loss on available-for-sale securities		(105,653)		-		(584,618)		(899,999)
Reclassification adjustments for losses included in net income (loss):								
Loss on sale of available-for-sale securities		-		-		-		36,349
Other than temporary impairment of available-for-sale securities		126,080		-		584,618		-
Total other comprehensive income (loss)		20,427		-		-		(863,650)
Comprehensive income (loss)	$	1,265,958	$	151,348	$	1,371,315	$	(1,713,378)
Basic earnings (loss) per share:								
Continuing operations	$	0.05	$	0.01	$	0.06	$	(0.04)
Discontinued operations		-		-		-		-
Net income	$	0.05	$	0.01	$	0.06	$	(0.04)
Diluted earnings (loss) per share:								
Continuing operations	$	0.05	$	0.01	$	0.06	$	(0.04)
Discontinued operations		-		-		-		-
Net income	$	0.05	$	0.01	$	0.06	$	(0.04)
Weighted average number of common shares - basic		23,750,068		20,628,042		23,681,188		19,578,110
Weighted average number of common shares - diluted		24,620,768		22,399,847		24,748,108		19,578,110

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

INTERCLICK, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010
(Unaudited)

	Common Stock		Additional Paid-In	Accumulated Other Comprehensive Income	Accumulated	Total Stockholders'
	Shares	Amount	Capital	(Loss)	Deficit	Equity
Balances, January 1, 2010	23,632,707	$ 23,633	$ 42,229,293	$ -	$ (13,312,223)	$ 28,940,703
Stock-based compensation	-	-	2,800,566	-	-	2,800,566
Issuances of restricted shares	10,100	10	(10)	-	-	-
Issuance of common shares for stock options and warrants exercised	194,528	194	336,513	-	-	336,707
Reclassification of warrant derivative liability to equity upon expiration of price protection	-	-	47,846	-	-	47,846
Unrealized loss on available-for-sale securities	-	-	-	(584,618)	-	(584,618)
Other than temporary impairment on available-for-sale securities	-	-	-	584,618	-	584,618
Net income	-	-	-	-	1,371,315	1,371,315
Balances, September 30, 2010	23,837,335	$ 23,837	$ 45,414,208	$ -	$ (11,940,908)	$ 33,497,137

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

INTERCLICK, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
Cash flows from operating activities:		
Net income (loss)	$ 1,371,315	$ (849,728)
Add back loss from discontinued operations, net	-	1,220
Income (loss) from continuing operations	1,371,315	(848,508)
Adjustments to reconcile net income (loss) from continuing operations to net cash used in operating activities:		
Stock-based compensation	2,800,566	1,953,884
Other than temporary impairment of available-for-sale securities	584,618	-
Depreciation and amortization of property and equipment	502,726	225,281
Amortization of intangible assets	118,500	149,280
Provision for bad debts	103,241	(87,084)
Amortization of deferred line of credit costs	8,243	24,972
Deferred tax benefit	(412,327)	-
Change in warrant derivative liability	(21,413)	506,786
Loss on sale of available-for-sale securities	-	36,349
Amortization of debt discount	-	12,000
Changes in cash attributable to changes in operating assets and liabilities:		
Accounts receivable	(8,607,026)	(7,268,876)
Prepaid expenses and other current assets	(9,903)	(155,341)
Other assets	(15,394)	(515)
Accounts payable	1,898,976	2,219,724
Accrued expenses	25,564	1,521,435
Income taxes payable	275,069	-
Deferred rent	548,141	13,573
Net cash used in operating activities	(829,104)	(1,697,040)
Cash flows from investing activities:		
Proceeds from sale of available-for-sale securities	11,250	21,429
Payments for restricted cash	(1,294,187)	-
Purchases of property and equipment	(659,425)	(86,851)
Net cash used in investing activities	(1,942,362)	(65,422)
Cash flows from financing activities:		
Proceeds from current line of credit	5,200,000	-
Proceeds from stock options and warrants exercised	336,707	15,200
(Repayments to) proceeds from former line of credit, net	(4,208,667)	1,893,593
Payments of deferred line of credit costs	(88,341)	-
Principal payments on capital leases	(130,178)	(8,108)
Proceeds from common stock and warrants issued for cash	-	2,257,000
Principal payments on notes payable	-	(400,000)
Net cash provided by financing activities	1,109,521	3,757,685

Cash flows from discontinued operations:				
Cash flows from investing activities - divestiture		-		(250,000)
Net cash used in discontinued operations		-		(250,000)
Net (decrease) increase in cash and cash equivalents		(1,661,945)		1,745,223
Cash and cash equivalents at beginning of period		12,653,958		183,871
Cash and cash equivalents at end of period	$	10,992,013	$	1,929,094

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

INTERCLICK, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Unaudited)

	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
Supplemental disclosure of cash flow information:		
Interest paid	$ 232,447	$ 412,364
Income taxes paid	$ 1,693,535	$ -
Non-cash investing and financing activities:		
Property and equipment acquired through capital leases	$ 495,600	$ -
Leasehold improvements increased for deferred rent	$ 83,070	$ -
Reclassification of warrant derivative liability to equity upon expiration of price protection	$ 47,846	$ -
Deferred line of credit costs included in accrued expenses	$ 37,500	$ -
Unrealized loss on available-for-sale securities	$ -	$ 863,650
Issuance of common stock to eliminate or modify price protection for warrants	$ -	$ 508,497
Issuance of common stock for services to be rendered	$ -	$ 124,000
Issuance of common stock to pay accrued interest payable	$ -	$ 13,266
Issuance of common stock to extend debt maturity date	$ -	$ 12,000

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

INTERCLICK, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(Unaudited)

Note 1. Nature of Operations

Overview

interclick, inc. (the “Company”, or “interclick”) was formed in Delaware on March 4, 2002 under the name Outsiders Entertainment, Inc.

On August 28, 2007, the Company closed an Agreement and Plan of Merger and Reorganization (the “CAN Merger Agreement”) and acquired Customer Acquisition Network, Inc. (“CAN”), a privately-held corporation formed in Delaware on June 14, 2007. In connection with this acquisition, the Company changed its name to Customer Acquisition Network Holdings, Inc. On June 25, 2008, the Company changed its name to interclick, inc.

On August 31, 2007, the Company closed an Agreement and Plan of Merger (the “Desktop Merger”), wherein the Company acquired Desktop Interactive, Inc. (“Desktop Interactive”), a privately-held Delaware corporation engaged in the Internet advertising business. Desktop Interactive merged with and into Desktop Acquisition Sub, Inc. (“Desktop”), a wholly-owned subsidiary of the Company. Desktop was the surviving corporation. Desktop was formed in Delaware on August 24, 2007.

interclick, inc. is a technology company providing solutions for data-driven advertising. Combining scalable media execution capabilities with analytical expertise, interclick delivers exceptional results for marketers. The Company’s proprietary Open Segment Manager (OSM) platform organizes and valuates billions of data points daily to construct the most responsive digital audiences for major digital marketers. Substantially all of the Company’s revenues are generated in the United States.

On January 4, 2008, the Company closed an Agreement and Plan of Merger (the “Options Merger”), wherein the Company acquired Options Newsletter, Inc. (“Options Newsletter”). Options Newsletter merged with and into Options Acquisition Sub, Inc. (“Options Acquisition”), a wholly-owned subsidiary of the Company. Options Acquisition was the surviving corporation. On June 23, 2008, Options Acquisition was sold to Options Media Group Holdings, Inc. (“OPMG”).

The Company is particularly sensitive to seasonality given that the majority of its revenues are tied to CPM (cost-per-thousand) campaigns, which are strongest in the fourth quarter and weakest in the first quarter. While not necessarily indicative of future seasonality, the Company’s revenue mix in 2009 was as follows: 15.2% in the first quarter, 19.3% in the second quarter, 26.1% in the third quarter, and 39.4% in the fourth quarter.

Basis of Presentation

The interim condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). In the opinion of the Company’s management, all adjustments (consisting of normal recurring adjustments and reclassifications and non-recurring adjustments) necessary to present fairly our results of operations for the three and nine months ended September 30, 2010 and 2009, our cash flows for the nine months ended September 30, 2010 and 2009, our statement of changes in stockholders’ equity for the nine months ended September 30, 2010 and our financial position as of September 30, 2010, have been made. The results of operations for such interim periods are not necessarily indicative of the operating results to be expected for the full year.

Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or omitted from these interim consolidated financial statements. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed with the SEC on March 31, 2010. The December 31, 2009 balance sheet is derived from those statements.

All references to outstanding shares, options, warrants and per share information have been adjusted to give effect to the one-for-two reverse stock split effective October 23, 2009.

The Company has evaluated subsequent events for potential recognition and/or disclosure through the date of issuance of these financial statements.

INTERCLICK, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(Unaudited)

Note 2. Significant Accounting Policies

Use of Estimates

Our unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of our unaudited condensed consolidated financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our unaudited condensed consolidated financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management’s judgment in its application. There are also areas in which management’s judgment in selecting any available alternative would not produce a materially different result. Significant estimates include the valuation of accounts receivable and the allowance for doubtful accounts, estimates of depreciable lives and valuation of property and equipment, valuation and amortization periods of intangible assets and deferred costs, valuation of goodwill, valuation of discounts on debt, valuation of derivatives, valuation of investment in available-for-sale securities, valuation of shares of common stock, options and warrants granted for services or recorded as debt discounts or other non-cash purposes, the valuation allowance on deferred tax assets, and estimates of the tax effects of the sale of a subsidiary.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of interclick, inc. and its wholly-owned subsidiary and Options Newsletter through its sale date. All significant inter-company balances and transactions have been eliminated in consolidation. As a result of the Options Divestiture, the results of Options Newsletter are reported as “Discontinued Operations”.

Restricted Cash

Restricted cash represents amounts pledged as security for certain agreements with third parties. Upon satisfying the terms of the agreements, the funds are expected to be released and available for use by the Company.

In January 2010, the Company pledged a $500,000, 3-month certificate of deposit bearing interest at 0.60% per annum, to a third party in connection with a service agreement. In April 2010, July 2010 and October 2010, the certificate of deposit and the pledge were renewed for an additional three months.

In February 2010, the Company acquired $495,600 of computer equipment under a capital lease agreement. In connection with the lease agreement, the Company’s banking institution issued an irrevocable 1-year standby letter of credit for the benefit of the leasing company. The Company opened a 14-month certificate of deposit, bearing interest at 0.56% per annum, maturing April 1, 2011, with its banking institution in the amount of $495,600 and pledged that to the letter of credit. The Company shall consider the certificate of deposit and accrued interest as restricted cash until such letter of credit expires.

On March 11, 2010, the Company entered into a lease agreement to relocate its New York City headquarters to a larger space. In connection with the lease agreement, the Company's banking institution issued an irrevocable 1-year standby letter of credit for the benefit of the landlord. The Company opened a 14-month certificate of deposit, bearing interest at 0.70% per annum, maturing March 27, 2011, with its banking institution in the amount of $294,700 and pledged that to the letter of credit. Through the lease term, the Company is required to maintain a standby letter of credit for the benefit of the landlord. Accordingly, as of September 30, 2010, the Company has classified the certificate of deposit, including accrued interest, as restricted cash, a non-current asset.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is provided for on a straight-line basis over the estimated useful lives of the assets per the following table. Leasehold improvements are amortized over the lesser of their useful life or the lease term. Expenditures for additions and improvements are capitalized while repairs and maintenance are expensed as incurred.

INTERCLICK, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(Unaudited)

Category	Depreciation Term
Computer equipment	3-5 years
Software	3 years
Furniture and fixtures	3-5 years
Office equipment	3-5 years
Leasehold improvements	5 years

Fair Value Measurements

The Company has adopted the provisions of Accounting Standards Codification ("ASC") Topic 820, "Fair Value Measurements and Disclosures". ASC Topic 820 defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value and expands disclosure of fair value measurements. Excluded from the scope of ASC Topic 820 are certain leasing transactions accounted for under ASC Topic 840, "Leases." The exclusion does not apply to fair value measurements of assets and liabilities recorded as a result of a lease transaction but measured pursuant to other pronouncements within the scope of ASC Topic 820.

Reclassifications

Certain amounts in the accompanying 2009 financial statements have been reclassified in order to conform to the 2010 presentation. The following tables show the reclassifications to the condensed consolidated statements of operations for the three and nine months ended September 30, 2009.

	For the Three Months Ended September 30, 2009		
		Reclassifications	
	As Previously Reported	Compensation and Employee-Related Costs	As Reclassified
Operating expenses:			
General and administrative	$ 3,383,752	$ (35,171)	$ 3,348,581
Sales and marketing	2,317,245	3,262	2,320,507
Technology support	830,626	31,909	862,535
Amortization of intangible assets	49,760		49,760
Total operating expenses	$ 6,581,383		$ 6,581,383

	For the Nine Months Ended September 30, 2009		
		Reclassifications	
	As Previously Reported	Compensation and Employee-Related Costs	As Reclassified
Operating expenses:			
General and administrative	$ 8,021,106	$ (99,142)	$ 7,921,964

Sales and marketing	5,468,122	3,828	5,471,950
Technology support	2,149,103		