

DICE HOLDINGS, INC.
Form 10-Q
October 26, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE TRANSITION PERIOD FROM _____ TO _____
Commission File Number: 001-33584

DICE HOLDINGS, INC.
(Exact name of Registrant as specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-3179218
(I.R.S. Employer
Identification No.)

1040 Avenue of the Americas, 16thFloor
New York, New York
(Address of principal executive offices)
(212) 725-6550
(Registrant's telephone number, including area code)

10018
(Zip Code)

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 (§232.405 of this chapter) 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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

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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, there were 59,632,328 shares of the registrant's common stock, par value \$.01 per share, outstanding.

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PART I.

Item 1. Financial Statements

DICE HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands, except per share data)

	September 30, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	\$46,322	\$55,237
Investments	3,701	4,983
Accounts receivable, net of allowance for doubtful accounts of \$1,406 and \$1,515	21,859	20,684
Deferred income taxes—current	888	509
Prepaid and other current assets	2,614	2,190
Total current assets	75,384	83,603
Fixed assets, net	10,539	8,726
Acquired intangible assets, net	62,142	56,471
Goodwill	184,714	176,365
Deferred financing costs, net of accumulated amortization of \$71 and \$650	1,138	957
Other assets	583	256
Total assets	\$334,500	\$326,378
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$14,416	\$14,599
Deferred revenue	66,144	60,887
Current portion of acquisition related contingencies	—	1,557
Current portion of long-term debt	—	4,000
Income taxes payable	2,896	2,929
Total current liabilities	83,456	83,972
Long-term debt	42,000	11,000
Deferred income taxes—non-current	14,998	17,167
Accrual for unrecognized tax benefits	2,402	3,869
Other long-term liabilities	1,150	1,154
Total liabilities	144,006	117,162
Commitments and contingencies (Note 8)		
Stockholders' equity		
Convertible preferred stock, \$.01 par value, authorized 20,000 shares; no shares issued and outstanding	—	—
Common stock, \$.01 par value, authorized 240,000; issued 70,729 and 69,364 shares, respectively; outstanding: 59,990 and 65,070 shares, respectively	707	694
Additional paid-in capital	292,000	285,153
Accumulated other comprehensive loss	(9,296	) (12,052
Accumulated earnings (deficit)	7,573	) (21,501
Treasury stock, 10,739 and 4,294 shares, respectively	(100,490	) (43,078
Total stockholders' equity	190,494	209,216
Total liabilities and stockholders' equity	\$334,500	\$326,378
See accompanying notes to the condensed consolidated financial statements.		

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DICE HOLDINGS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (unaudited)
 (in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Revenues	\$48,038	\$46,804	\$142,625	\$131,774
Operating expenses:				
Cost of revenues	3,603	3,333	10,555	9,616
Product development	3,874	2,602	10,250	7,470
Sales and marketing	16,194	14,898	48,801	44,646
General and administrative	6,736	6,073	19,753	17,827
Depreciation	1,505	1,250	4,031	3,414
Amortization of intangible assets	1,419	2,475	4,954	7,404
Change in acquisition related contingencies	—	1,174	—	3,156
Total operating expenses	33,331	31,805	98,344	93,533
Operating income	14,707	14,999	44,281	38,241
Interest expense	(327	) (333	) (1,696	) (1,119
Interest income	16	37	72	92
Income before income taxes	14,396	14,703	42,657	37,214
Income tax expense	3,395	5,392	13,583	13,574
Net income	\$11,001	\$9,311	\$29,074	\$23,640
Basic earnings per share	\$0.18	\$0.14	\$0.47	\$0.36
Diluted earnings per share	\$0.17	\$0.13	\$0.44	\$0.34
Weighted-average basic shares outstanding	59,907	66,447	62,214	66,004
Weighted-average diluted shares outstanding	63,143	70,157	65,636	70,477

See accompanying notes to the condensed consolidated financial statements.

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DICE HOLDINGS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (unaudited)
 (in thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Net income	\$11,001	\$9,311	\$29,074	\$23,640
Foreign currency translation adjustment	2,156	(2,163	) 2,749	617
Unrealized gains (losses) on investments, net of tax of \$0, \$0, \$5 and \$0	(1	) —	7	(1
Total other comprehensive income (loss)	2,155	(2,163	) 2,756	616
Comprehensive income	\$13,156	\$7,148	\$31,830	\$24,256

See accompanying notes to the condensed consolidated financial statements.

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DICE HOLDINGS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (unaudited)
 (in thousands)

	Nine Months Ended September	
	30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$29,074	\$23,640
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	4,031	3,414
Amortization of intangible assets	4,954	7,404
Deferred income taxes	(2,543)	(1,845)
Amortization of deferred financing costs	1,028	346
Share based compensation	4,621	3,386
Change in acquisition related contingencies	—	3,156
Change in accrual for unrecognized tax benefits	(1,467)	(550)
Changes in operating assets and liabilities:		
Accounts receivable	3,857	217
Prepaid expenses and other assets	(500)	(894)
Accounts payable and accrued expenses	(975)	(193)
Income taxes receivable/payable	(135)	7,229
Deferred revenue	2,521	10,188
Other, net	51	10
Net cash flows from operating activities	44,517	55,508
Cash flows from investing activities:		
Payments for acquisitions	(21,000)	—
Purchases of fixed assets	(4,031)	(5,319)
Purchases of investments	(1,738)	(4,988)
Maturities and sales of investments	3,005	2,150
Net cash flows from investing activities	(23,764)	(8,157)
Cash flows from financing activities:		
Payments on long-term debt	(23,500)	(25,000)
Proceeds from long-term debt	50,500	—
Proceeds from sale of common stock	—	11,943
Purchase of treasury stock related to option exercises	—	(11,943)
Payments under stock repurchase plan	(56,840)	(7,454)
Payment of acquisition related contingencies	(1,557)	(230)
Proceeds from stock option exercises	1,319	4,443
Purchase of treasury stock related to vested restricted stock	(403)	(171)
Excess tax benefit over book expense from stock options exercised	921	7,444
Financing costs paid	(1,101)	—
Net cash flows from financing activities	(30,661)	(20,968)
Effect of exchange rate changes	993	93
Net change in cash and cash equivalents for the period	(8,915)	26,476
Cash and cash equivalents, beginning of period	55,237	43,030
Cash and cash equivalents, end of period	\$46,322	\$69,506

See accompanying notes to the condensed consolidated financial statements.

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DICE HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Dice Holdings, Inc. (“DHI” or the “Company”) have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in annual audited financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been omitted and condensed pursuant to such rules and regulations. In the opinion of the Company’s management, all adjustments (consisting of only normal and recurring accruals) have been made to present fairly the financial positions, results of operations and cash flows for the periods presented. Although the Company believes that the disclosures are adequate to make the information presented not misleading, these financial statements should be read in conjunction with the Company’s audited consolidated financial statements as of and for the year ended December 31, 2011 that are included in the Company’s Annual Report on Form 10-K. Operating results for the nine month period ended September 30, 2012 are not necessarily indicative of the results to be achieved for the full year. Preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the period. Management believes the most complex and sensitive judgments, because of their significance to the condensed consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results could differ materially from management’s estimates. There have been no significant changes in the Company’s assumptions regarding critical accounting estimates during the nine month period ended September 30, 2012.

2. NEW ACCOUNTING STANDARDS

In July 2012, the FASB issued ASU No. 2012-02, which amends the guidance in ASC 350-30 on testing indefinite-lived intangible assets, other than goodwill, for impairment. Under the revised guidance, companies testing an indefinite-lived intangible asset for impairment have the option of performing a qualitative assessment before calculating the fair value of the asset (i.e. step 1 of the impairment test). If companies determine, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is more likely than not less than the carrying amount, the two-step impairment test would be required. This update is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. There is no significant impact of adoption on the Company’s Consolidated Financial Statements.

3. ACQUISITIONS

On September 17, 2012, the Company purchased certain assets of Geeknet, Inc.’s online media business (“Geeknet Media”), which is comprised of Slashdot, SourceForge and Freecode websites. The purchase price consisted of \$20.0 million in cash, of which \$3.0 million is being held in escrow. The acquisition resulted in recording intangible assets of \$9.7 million and goodwill of \$6.2 million.

The assets acquired and liabilities assumed were recorded at fair value as of the acquisition date. The acquired accounts receivable of \$5.1 million were recorded at fair value of \$4.8 million. The assets and liabilities recognized as of the acquisition date include (in thousands):

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	As of Acquisition, September 17, 2012
Assets:	
Accounts receivable	\$4,800
Acquired intangible assets	9,700
Goodwill	6,221
Fixed assets	1,922
Other assets	230
Assets acquired	22,873
Liabilities:	
Accounts payable and accrued expenses	\$429
Deferred revenue	2,444
Liabilities assumed	2,873
Net Assets Acquired	\$20,000

Goodwill results from the expansion of the Company's market share in the Tech & Clearance vertical, from intangible assets that do not qualify for separate recognition, including an assembled workforce and site traffic, and from expected synergies from combining operations of Geeknet Media into the Company's existing operations. Goodwill is deductible for tax purposes.

Pro forma Information—The following pro forma condensed consolidated results of operations are presented as if the acquisition of Geeknet Media was completed as of January 1, 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	\$51,886	\$51,811	\$156,501	\$147,242
Net income	14,669	9,575	33,083	24,503

The pro forma financial information represents the combined historical operating results of the Company and Geeknet Media with adjustments for purchase accounting and is not necessarily indicative of the results of operations that would have been achieved if the acquisitions had taken place at the beginning of the periods presented. The pro forma adjustments included adjustments for interest on borrowings, amortization of acquired intangible assets and the related income tax impacts of such adjustments.

The Condensed Consolidated Statements of Operations for the three and nine month periods ended September 30, 2012 include revenues from this acquisition of \$761,000 and an operating loss of \$203,000.

On June 29, 2012, the Company purchased certain assets of FINS.com, resulting in recording of identifiable intangible assets for candidate database, mobile application technology and brand names. Refer to Note 6 "Acquired Intangible Assets". The FINS.com acquisition is not deemed significant to the Company's financial results, thus limited disclosures are presented herein.

In October 2012, the Company acquired a technology company focused on the recruitment industry for \$10.0 million in cash, plus deferred payments totaling \$10.0 million in the aggregate payable in 2013-2014 based on delivery of certain products.

4. FAIR VALUE MEASUREMENTS

The FASB ASC topic on Fair Value Measurements and Disclosures defines fair value, establishes a framework for measuring fair value and requires certain disclosures for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. As a basis for considering assumptions, a three-tier fair value hierarchy is used, which prioritizes the inputs used in measuring fair value as follows:

Level 1 – Quoted prices for identical instruments in active markets.

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Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations, in which all significant inputs are observable in active markets.

Level 3 – Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Money market funds are included in cash and cash equivalents on the Condensed Consolidated Balance Sheets. The money market funds are valued using quoted prices in the market, and investments are valued using significant other observable inputs. The carrying amounts reported in the Condensed Consolidated Balance Sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, and long-term debt approximate their fair values. The Company estimated the fair value of long-term debt using Level 3 inputs, based on an estimate of current rates for debt of the same remaining maturities.

The Company had obligations, to be paid in cash, related to its acquisitions if certain future operating and financial goals were met. The fair value of this contingent consideration was determined using an expected present value technique. Expected cash flows were determined using the probability weighted-average of possible outcomes that would occur should certain events and certain financial metrics be reached. There was no market data available to use in valuing the contingent consideration; therefore, the Company developed its own assumptions related to the future financial performance of the businesses to estimate the fair value of these liabilities. The liabilities for the contingent consideration were established at the time of acquisition and were evaluated at each reporting period. A \$1.6 million payment for WorldwideWorker was made during the nine month period ended September 30, 2012, bringing the contingent consideration to be paid in the future to zero at September 30, 2012.

The assets and liabilities measured at fair value on a recurring basis are as follows (in thousands):

	As of September 30, 2012			Total
	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Money market funds	\$17,588	\$—	\$—	\$17,588
Investments	—	3,701	—	3,701

	As of December 31, 2011			Total
	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Money market funds	\$25,383	\$—	\$—	\$25,383
Investments	—	4,983	—	4,983
Contingent consideration to be paid in cash for the acquisitions	—	—	1,557	1,557

Reconciliations of liabilities measured and carried at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Contingent consideration for acquisitions				

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Balance at beginning of period	\$—	\$13,122	\$1,557	\$11,370
Cash payments	—	—	(1,557) (230
Change in estimates included in earnings	—	1,174	—	3,156
Balance at end of period	\$—	\$14,296	\$—	\$14,296

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Certain assets and liabilities are measured at fair value on a non-recurring basis and therefore are not included in the table above. These assets include goodwill and intangible assets which result as acquisitions occur. Items valued using such internally generated valuation techniques are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be some significant inputs that are readily observable. Such instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, for example, when there is evidence of impairment.

The Company determines whether the carrying value of recorded goodwill is impaired for each reporting unit on an annual basis or more frequently if indicators of potential impairment exist for each reporting unit. The impairment test for goodwill for the reporting units from the 2005 Dice Inc. acquisition is performed annually as of August 31 and last resulted in no impairment. The impairment test for goodwill for the reporting units from the 2006 eFinancialCareers acquisition, the 2009 AllHealthcareJobs acquisition and the 2010 WorldwideWorker and Rigzone acquisitions are performed annually as of October 31 and last resulted in no impairment. In testing goodwill for impairment, a qualitative assessment can be performed and if it is determined that the fair value of the reporting unit is more likely than not less than the carrying amount, the two step impairment test is required. The first step of the impairment review process compares the fair value of the reporting unit in which the goodwill resides to the carrying value of that reporting unit. The second step measures the amount of impairment loss, if any, by comparing the implied fair value of the reporting unit goodwill with its carrying amount. The determination of whether or not goodwill has become impaired involves a significant level of judgment in the assumptions underlying the approach used to determine the value of the reporting units. Fair values of each reporting unit are determined either by using a discounted cash flow methodology or by using a combination of a discounted cash flow methodology and a market comparable method. The discounted cash flow methodology is based on projections of the amounts and timing of future revenues and cash flows, assumed discount rates and other assumptions as deemed appropriate. Factors such as historical performance, anticipated market conditions, operating expense trends and capital expenditure requirements are considered. Additionally, the discounted cash flows analysis takes into consideration cash expenditures for product development, other technological updates and advancements to the websites and investments to improve the candidate databases. The market comparable method indicates the fair value of a business by comparing it to publicly traded companies in similar lines of business or to comparable transactions or assets. Considerations for factors such as size, growth, profitability, risk and return on investment are analyzed and compared to the comparable businesses and adjustments are made. A market value of invested capital of the publicly traded companies is calculated and then applied to the entity's operating results to arrive at an estimate of value. No impairment was indicated during the most recent annual impairment tests. The fair value of each reporting unit was substantially in excess of the carrying value.

The indefinite-lived acquired intangible assets include the Dice trademarks and brand name. The Company determines whether the carrying value of recorded indefinite-lived acquired intangible assets is impaired on an annual basis or more frequently if indicators of potential impairment exist. The impairment test is performed annually as of August 31 and last resulted in no impairment. The impairment review process compares the fair value of the indefinite-lived acquired intangible assets to its carrying value. If the carrying value exceeds the fair value, an impairment loss is recorded. The determination of whether or not indefinite-lived acquired intangible assets have become impaired involves a significant level of judgment in the assumptions underlying the approach used to determine the value of the indefinite-lived acquired intangible assets. Fair values are determined using a profit allocation methodology, which estimates the value of the trademark and brand name by capitalizing the profits saved because the company owns the asset. Factors such as historical performance, anticipated market conditions, operating expense trends and capital expenditure requirements are considered. Changes in Company strategy and/or market conditions could significantly impact these judgments and require adjustments to recorded amounts of intangible assets.

5. INVESTMENTS

DHI's investments are stated at fair value. These investments are available-for-sale. The following tables summarize the Company's investments (in thousands):

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As of September 30, 2012				
	Maturity	Gross Amortized Cost	Gross Unrealized Gain	Estimated Fair Value
U.S. Government and agencies	Within one year	\$ 1,253	\$ 2	\$ 1,255
U.S. Government and agencies	1 to 5 years	250	—	250
Certificates of deposit	Within one year	1,207	4	1,211
Certificates of deposit	1 to 5 years	979	6	985
Total		\$3,689	\$ 12	\$3,701

As of December 31, 2011				
	Maturity	Gross Amortized Cost	Gross Unrealized Gain	Estimated Fair Value
U.S. Government and agencies	Within one year	\$759	\$ 1	\$760
U.S. Government and agencies	1 to 5 years	1,516	2	1,518
Certificates of deposit	Within one year	1,239	1	