

HouseValues, Inc.
Form 10-Q
November 08, 2005
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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 AND EXCHANGE ACT OF 1934

For The Quarter Ended September 30, 2005

OR

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

Commission File Number: 000-51032

HouseValues, Inc.

(Exact name of registrant as specified in its charter)

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Washington
(State or other jurisdiction of
incorporation or organization)

91-1982679
(IRS Employer
Identification No.)

11332 NE 122nd Way, Kirkland, WA 98034
(Address of principal executive offices, including zip code)

(425) 952-5500
(Registrant's telephone number, including area 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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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, 2005, there were outstanding 25,666,837 shares of the registrant's common stock, \$0.001 par value, which is the only class of common stock of the registrant.

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Table of Contents**Item 1. Consolidated Financial Statements****HouseValues, Inc.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(In thousands, except per share data)****(unaudited)**

	Quarters ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Revenues	\$ 23,337	\$ 12,805	\$ 61,533	\$ 33,278
Expenses:				
Sales and marketing	11,499	6,103	30,397	15,455
Technology and product development	1,726	940	4,567	2,446
General and administrative	3,255	2,663	9,068	5,362
Depreciation and amortization of property and equipment (1)	506	211	1,262	600
Amortization of intangible assets	151	257	454	638
Stock-based compensation (2)	274	145	829	221
Total expenses	17,411	10,319	46,577	24,722
Income from operations	5,926	2,486	14,956	8,556
Interest income	491	43	1,295	84
Income before income tax expense	6,417	2,529	16,251	8,640
Income tax expense	2,086	885	5,282	3,033
Net income	\$ 4,331	\$ 1,644	\$ 10,969	\$ 5,607
Net income per share:				
Basic	\$ 0.17	\$ 0.08	\$ 0.43	\$ 0.30
Diluted	\$ 0.16	\$ 0.07	\$ 0.40	\$ 0.26

(1) Depreciation and amortization of property and equipment is allocated as follows:

	2005	2004	2005	2004
Technology and product development	\$ 199	\$ 95	\$ 430	\$ 264
General and administrative	307	116	832	336
	\$ 506	\$ 211	\$ 1,262	\$ 600

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(2) Stock-based compensation is allocated as follows:

	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Sales and marketing	\$ 57	\$ 66	\$ 185	\$ 77
Technology and product development	42	46	121	67
General and administrative	175	33	523	77
	<u>\$ 274</u>	<u>\$ 145</u>	<u>\$ 829</u>	<u>\$ 221</u>

See accompanying notes to condensed consolidated financial statements.

Table of Contents**HouseValues, Inc.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share data)****(unaudited)**

	September 30, 2005	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 63,003	\$ 57,562
Short-term investments	25,815	17,316
Accounts receivable, net of allowance of \$193 and \$95	293	84
Prepaid expenses and other assets	1,442	1,245
Deferred income taxes	929	222
Other current assets	84	1,605
	<u>91,566</u>	<u>78,034</u>
Total current assets	91,566	78,034
Property and equipment, net of accumulated depreciation of \$3,137 and \$2,051	7,218	3,702
Goodwill	2,318	948
Intangible assets, net of accumulated amortization of \$1,680 and \$1,226	1,350	1,430
Other noncurrent assets	409	450
	<u>102,861</u>	<u>84,564</u>
Total assets	\$ 102,861	\$ 84,564
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,610	\$ 1,167
Accrued compensation and benefits	3,524	2,407
Accrued expenses and other current liabilities	5,216	3,706
Deferred rent, current portion	273	261
Deferred revenue	1,455	1,014
Income taxes payable	142	103
	<u>12,220</u>	<u>8,658</u>
Total current liabilities	12,220	8,658
Deferred income taxes	254	
Deferred rent, less current portion	1,401	1,306
	<u>13,875</u>	<u>9,964</u>
Total liabilities	13,875	9,964
Shareholders' equity:		
Common stock, par value \$0.001 per share, stated at amounts paid in; authorized 120,000,000 shares; issued and outstanding 25,658,512 and 24,935,000 shares at September 30, 2005 and December 31, 2004	70,627	68,631
Deferred stock-based compensation	(3,203)	(4,624)
Retained earnings	21,562	10,593
	<u>88,986</u>	<u>74,600</u>
Total shareholders' equity	88,986	74,600
Total liabilities and shareholders' equity	\$ 102,861	\$ 84,564

See accompanying notes to condensed consolidated financial statements.

Table of Contents**HouseValues, Inc.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(unaudited)**

	Nine months ended September 30,	
	2005	2004
Cash flows from operating activities:		
Net income	\$ 10,969	\$ 5,607
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	1,262	600
Amortization of intangible assets	454	638
Stock-based compensation	829	221
Deferred income tax benefit	(412)	(206)
Tax benefit from exercises of stock options	1,736	
Changes in certain assets and liabilities		
Accounts receivable	(209)	(21)
Prepaid expenses and other assets	(129)	(293)
Prepaid income taxes		(246)
Other current assets	1,521	
Accounts payable	(197)	(488)
Accrued compensation and benefits	1,117	860
Accrued expenses and other current liabilities	2,317	2,014
Deferred rent	107	0
Deferred revenue	441	379
Income taxes payable	39	(11)
Net cash provided by operating activities	<u>19,845</u>	<u>9,054</u>
Cash flows from investing activities:		
Purchases of short-term investments	(12,799)	(14,840)
Sales of short-term investments	4,300	
Change in restricted cash		250
Purchases of property and equipment	(4,984)	(590)
Additions to goodwill and intangible assets	(1,155)	(623)
Net cash used in investing activities	<u>(14,638)</u>	<u>(15,803)</u>
Cash flows from financing activities:		
Issuance costs related to the sale of common stock	(614)	(575)
Cash held for third party common stock transaction (see Note 6)		750
Cash paid to third party for common stock transaction (see Note 6)		(750)
Proceeds from exercises of stock options and warrants	848	847
Proceeds from repayment of shareholder note receivable		1
Net cash provided by financing activities	<u>234</u>	<u>273</u>

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Net increase (decrease) in cash and cash equivalents	5,441	(6,476)
Cash and cash equivalents at beginning of period	57,562	7,181
	<u> </u>	<u> </u>
Cash and cash equivalents at end of period	\$ 63,003	\$ 705
	<u> </u>	<u> </u>