Form 10-Q for TICKETMASTER

22-Sep-2008

Quarterly Report

Item 2. Management's Discussion and Analysis of the Financial Condition and Results of Operations

GENERAL

Forward-Looking Statements

Forward-looking statements in this Quarterly Report are subject to known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other public statements. Forward-looking statements include the information regarding future financial performance, business prospects and strategy, including the realization of anticipated benefits related to the spin-offs, as well as anticipated financial position, liquidity and capital needs and other similar matters, in each case relating to the Company.

Statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "projects," "estimates," "plans," "may increase," "may fluctuate," and similar expressions or future or conditional verbs such as "will," "should," "would," "may" and "could" are generally forward-looking in nature and not historical facts. You should understand that the following important factors could affect future results and could cause actual results to differ materially from those expressed in such forward-looking statements:

� �
� adverse changes in economic conditions generally or in any of the markets or industries in which the businesses of the Company operate;

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� changes in senior management at the Company;

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� adverse changes to, or interruptions in, relationships with third parties;

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� changes affecting the ability of the Company to efficiently maintain and grow the market share of its various brands, as well as to extend the reach of these brands through a variety of distribution channels and to attract new (and retain existing) customers;

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� consumer acceptance of new products and services offered by the Company;

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� the rates of growth of the Internet and the e-commerce industry;

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� changes adversely affecting the ability of the Company to adequately expand the reach of its businesses into various international markets, as well as to successfully manage risks specific to international operations and acquisitions, including the successful integration of acquired businesses;

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� future regulatory and legislative actions and conditions affecting the Company, including:
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� the promulgation of new, and/or the amendment of existing laws, rules and regulations applicable to the Company and its businesses; and

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� changes in the application or interpretation of existing laws, rules and regulations in the case of the businesses of the Company. In each case, laws, rules and regulations include, among others, those relating to sales, use, value-added and other taxes, software programs, consumer protection and privacy, intellectual property, the Internet and e-commerce;

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� competition from other companies;

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� changes adversely affecting the ability of the Company and its businesses to adequately protect intellectual property rights, as well as to obtain licenses or other rights with respect to intellectual property in the future, which may or may not be available on favorable terms (if at all);

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� the substantial indebtedness of the Company and the possibility that the Company may incur additional indebtedness;

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� third-party claims alleging infringement of intellectual property rights by the Company or its businesses, which could result in the expenditure of significant financial and managerial resources, injunctions or the imposition of damages, as well as the need to enter into formal licensing or other similar arrangements with such third parties, which may or may not be available on favorable terms (if at all); and

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� natural disasters, acts of terrorism, war or political instability.

Certain of these factors and other factors, risks and uncertainties are discussed in the "Risk Factors" section of the Company's Post-Effective Amendment No. 1 to Form S-1 filed with the SEC on August 20, 2008, which is attached as Exhibit 99.2 hereto. Other unknown or unpredictable factors may also cause actual results to differ materially from those projected by the forward-looking statements. Most of these factors are difficult to anticipate and are generally beyond the control of the Company.

You should consider the areas of risk described above, as well as those set forth in the "Risk Factors" section of the Company's Post-Effective Amendment No. 1 to Form S-1 filed with the SEC on August 20, 2008, which is attached as Exhibit 99.2 hereto, in connection with considering any forward-looking statements that may be made by the Company generally. Except for the ongoing obligations of the Company to disclose material information under the federal securities laws, the Company does not undertake any obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless required to do so by law.

Management Overview

On August 20, 2008, IAC/InterActiveCorp ("IAC") distributed (the "spin-off") to its stockholders all of the outstanding shares of common stock, par value $0.01 per share, of Ticketmaster. Our businesses include the businesses that formerly comprised IAC's Ticketmaster segment, which consists of its domestic and international ticketing and ticketing related businesses, subsidiaries and investments, excluding its ReserveAmerica subsidiary and its investment in Active.com. Ticketmaster includes IAC's investment in Front Line Management Group, Inc. ("Front Line"). We refer to our businesses as the "Ticketmaster Businesses."

Results of operations for the three and six months ended June 30, 2008 compared to the three and six months ended June 30, 2007:

Revenue

For the three months ended June 30, 2008 compared to the three months ended June 30, 2007

	Three Months Ended June 30, 2008	% Change	2007
	(Dollars in thousands)		
Domestic	$ 261,553	31%	$ 200,137
International	120,816	30%	93,279
Total revenue	$ 382,369	30%	$ 293,416

Revenue in 2008 increased $89.0 million, or 30%, from 2007 driven by increases in both domestic and international revenue as worldwide tickets sold increased 7%, with a 10% increase in average revenue per ticket. Domestic revenue grew by 31%, primarily due to a 9% increase in average revenue per ticket, a 5% increase in the number of tickets sold and contributions from The V.I.P. Tour Company ("TicketsNow") and Paciolan, Inc. ("Paciolan"), acquired in February and January 2008, respectively. The increase in average domestic revenue per ticket resulted from higher convenience and processing fees due, in part, to annual contractual increases. International revenue grew by 30%, or 21% excluding the impact of foreign exchange, primarily due to a 13% increase in average revenue per ticket along with a 9% increase in the number of tickets sold. Both the increases in the average revenue per ticket and the number of tickets sold primarily resulted from increased revenue from Canada, China (Emma Entertainment acquired in August 2007) and Australia. Acquisitions contributed approximately $45.0 million to Ticketmaster's overall revenue growth in 2008.

Ticketmaster's largest client, Live Nation, Inc. ("Live Nation") (including its subsidiary House of Blues), represented approximately 18% and 23% of its combined revenue for the three months ended June 30, 2008 and 2007, respectively. Ticketmaster anticipates that none of the Live Nation agreements will be renewed upon their expiration, which range from December 31, 2008 through March 1, 2010.

For the six months ended June 30, 2008 compared to the six months ended June 30, 2007

	Six Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
Domestic	$ 501,260	22%	$ 409,214
International	230,090	23%	187,779
Total revenue	$ 731,350	23%	$ 596,993

Revenue in 2008 increased $134.4 million, or 23%, from 2007 driven by increases in both domestic and international revenue as worldwide tickets sold increased 5%, with an 8% increase in average revenue per ticket. Domestic revenue grew by 22%, primarily due to contributions from TicketsNow and Paciolan, acquired in February and January 2008, respectively, as well as an 8% increase in average revenue per ticket and a 3% increase in the number of tickets sold. The increase in average domestic revenue per ticket resulted from higher convenience and processing fees as noted above in the three month discussion. International revenue grew by 23%, or 13% excluding the impact of foreign exchange, primarily due to an 11% increase in average revenue per ticket along with a 7% increase in the number of tickets sold. Both the increases in the average revenue per ticket and the number of tickets sold primarily resulted from increased revenue from Canada, China (Emma Entertainment acquired in August 2007) and Australia. Acquisitions contributed approximately $61.9 million to Ticketmaster's overall revenue growth in 2008.

Live Nation (including its subsidiary House of Blues) represented approximately 17% and 20% of Ticketmaster's combined revenue for the six months ended June 30, 2008 and 2007, respectively.

Cost of sales

For the three months ended June 30, 2008 compared to the three months ended

June 30, 2007

	Three Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
Cost of sales	$ 248,549	35%	$ 183,860
As a percentage of total revenue	65%	234 bp	63%
Gross margin	35%	(234) bp	37%

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bp = basis points

Cost of sales consists primarily of ticketing royalties, credit card processing fees and compensation and other employee-related costs (including stock-based compensation) for personnel engaged in call center functions. Ticketing royalties relate to Ticketmaster's clients' share of convenience and order processing charges.

Cost of sales in 2008 increased $64.7 million from 2007, primarily due to increases of $20.5 million in ticketing royalties, $13.9 million in compensation and other employee-related costs and $6.8 million in credit card processing fees which resulted from an increase in ticket volume processed. Included in these increases is the impact of acquisitions not in the year ago period, which contributed $1.7 million, $7.3 million and $1.9 million to ticketing royalties, compensation and other employee-related costs and credit card processing fees, respectively. Excluding the impact of acquisitions not in the year ago period, cost of sales increased $36.4 million, or 20%. The increase in ticketing royalties is due to increased revenue and higher royalty rates which are driven, in part, by higher contractual royalty rates included in the renewal of contracts with various clients, and are usually based on a percentage of convenience and order processing revenue. Domestic and international ticketing royalties will continue to increase as a percentage of convenience and processing revenue.

For the six months ended June 30, 2008 compared to the six months ended

June 30, 2007

	Six Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
Cost of sales	$ 469,571	27%	$ 368,644
As a percentage of total revenue	64%	246 bp	62%
Gross margin	36%	(246) bp	38%

Cost of sales in 2008 increased $100.9 million from 2007, primarily due to increases of $33.2 million in ticketing royalties resulting from higher revenue and higher royalty rates, $25.2 million in compensation and other employee-related costs associated, in part, with a 22% increase in headcount (or 4% excluding recent acquisitions) and $8.3 million in credit card processing fees. Included in these increases is the impact of acquisitions not in the year ago period, which contributed $2.4 million, $13.2 million and $2.6 million to ticketing royalties, compensation and other employee-related costs and credit card processing fees, respectively. Excluding the impact of acquisitions not in the year ago period, cost of sales increased $61.3 million, or 17%.

Selling and marketing expense

For the three months ended June 30, 2008 compared to the three months ended

June 30, 2007

	Three Months Ended June 30, 2008	% Change	2007
	(Dollars in thousands)		
Selling and marketing expense	$ 24,636	202%	$ 8,158
As a percentage of total revenue	6%	366 bp	3%

Selling and marketing expense consists primarily of advertising and promotional expenditures and compensation and other employee-related costs (including stock-based compensation) for personnel engaged in customer service and sales functions. Advertising and promotional expenditures primarily include online marketing, including fees paid to search engines and distribution partners, as well as offline marketing, including sports sponsorship marketing and radio spending.

Selling and marketing expense in 2008 increased $16.5 million from 2007, primarily due to increased advertising and promotional expenditures of $11.1 million and increased compensation and other employee-related costs of $3.0 million. Included in these increases is the impact of acquisitions not in the year ago period, which contributed $7.0 million and $1.8 million to advertising and promotional expenditures and compensation and other employee-related costs, respectively. Excluding the impact of acquisitions not in the year ago period, selling and marketing expense increased $5.5 million, or 68%. The increase in advertising and promotional expenditures is due in part to costs

associated with its agreements with resale partners which are intended to promote Ticketmaster's ticket exchange offering.

For the six months ended June 30, 2008 compared to the six months ended

June 30, 2007

	Six Months Ended June 30, 2008	% Change	2007
	(Dollars in thousands)		
Selling and marketing expense	$ 44,029	189%	$ 15,231
As a percentage of total revenue	6%	347 bp	3%

Selling and marketing expense in 2008 increased $28.8 million from 2007, primarily due to increased advertising and promotional expenditures of $19.3 million and increased compensation and other employee-related costs of $5.4 million as Ticketmaster continued to build out its worldwide infrastructure. Included in these increases is the impact of acquisitions not in the year ago period, which contributed $9.2 million and $2.9 million to advertising and promotional expenditures and compensation and other employee-related costs, respectively. Excluding the impact of acquisitions not in the year ago period, selling and marketing expense increased $13.3 million, or 87%. The increase in advertising and promotional expenditures is due, in part, to an increase in marketing efforts including online and resale ticket services such as ticket exchange.

General and administrative expense

For the three months ended June 30, 2008 compared to the three months ended

June 30, 2007

	Three Months Ended June 30, 2008	% Change	2007
	(Dollars in thousands)		
General and administrative expense	$ 45,644	14%	$ 39,892
As a percentage of total revenue	12%	(166) bp	14%

General and administrative expense consists primarily of compensation and other employee-related costs (including stock-based compensation) for personnel engaged in finance, legal, tax, human resources and executive management functions, facilities costs and fees for professional services.

General and administrative expense in 2008 increased $5.8 million from 2007, primarily due to increases of $5.8 million in compensation and other employee-related costs, $2.4 million in professional fees, $1.4 million in rent and utilities and $0.9 million in bad debt expense, partially offset by a reduction of $7.0 million in certain litigation reserves. The increase in compensation and other employee-related costs is primarily due to an increase of $4.6 million associated with recent acquisitions not in the year ago period. Excluding the impact of acquisitions not in the year ago period, general and administrative expense decreased $1.3 million, or 4%. Ticketmaster expects to incur increased costs related to the additional financial and legal requirements associated with being a separate public company, as well as increased non-cash compensation associated with the modification of existing stock-based compensation awards in connection with the spin-off and the grant of new awards in connection with and subsequent to the spin-off.

General and administrative expense includes non-cash compensation expense of $6.0 million in 2008 compared with $2.6 million in 2007. The increase in non-cash compensation expense is primarily due to equity grants issued and assumed in recent acquisitions as well as equity grants issued to Ticketmaster employees subsequent to the second quarter of 2007. As of June 30, 2008, there was approximately $44.7 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards, which is currently expected to be recognized over a weighted average period of

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approximately 2.6 years (exclusive of the impact of the modification related to the spin-off, which primarily consists of the accelerated vesting of certain restricted stock units).

For the six months ended June 30, 2008 compared to the six months ended

June 30, 2007

	Six Months Ended June 30, 2008	% Change	2007
	(Dollars in thousands)		
General and administrative expense	$ 87,497	18%	$ 74,150
As a percentage of total revenue	12%	(46) bp	12%

General and administrative expense in 2008 increased $13.3 million from 2007, primarily due to increases of $10.1 million in compensation and other employee-related costs. The increase in compensation and other employee-related costs is primarily due to an increase of $7.4 million associated with recent acquisitions not in the year ago period. Excluding the impact of acquisitions not in the year ago period, general and administrative expense increased $2.2 million, or 3%.

General and administrative expense includes non-cash compensation expense of $10.3 million in 2008 compared with $4.1 million in 2007. The increase in non-cash compensation expense is primarily due to factors described above in the three month discussion.

Depreciation

For the three and six months ended June 30, 2008 compared to the three and six months ended June 30, 2007

	Three Months Ended June 30, 2008	% Change	2007	Six Months Ended June 30, 2008	% Change	2007
	(Dollars in thousands)					
Depreciation	$ 11,828	25%	$ 9,471	$ 22,883	23%	$ 18,592
As a percentage of total revenue	3%	(13) bp	3%	3%	1 bp	3%

Depreciation for the three and six months ended June 30, 2008 increased $2.4 million and $4.3 million, respectively, primarily due to various acquisitions not in the year ago period and the incremental depreciation associated with capital expenditures made during 2007 and 2008, partially offset by certain fixed assets becoming fully depreciated during the period. Excluding the impact of acquisitions not in the year ago period, depreciation expense for the three and six months increased $0.3 million and $0.8 million, or 3% and 4%, respectively.

Operating Income Before Amortization

Operating Income Before Amortization is a non-GAAP measure and is defined in "Ticketmaster's Principles of Financial Reporting".

For the three months ended June 30, 2008 compared to the three months ended June 30, 2007

	Three Months Ended June 30, 2008	% Change	2007
	(Dollars in thousands)		
Operating Income Before Amortization	$ 58,340	6%	$ 55,098
As a percentage of total revenue	15%	(352) bp	19%

Operating Income Before Amortization in 2008 increased $3.2 million from 2007, primarily due to an increase in revenue, partially offset by higher administrative and technology costs associated with acquisitions and the continued build out of worldwide infrastructure, increased costs associated with its agreements with resale partners, increased losses associated with strategic investments, particularly in Germany and China and higher royalty rates. Excluding the impact of acquisitions not in the year ago period, Operating Income Before Amortization increased $4.1 million, or 7%.

For the six months ended June 30, 2008 compared to the six months ended June 30, 2007

	Six Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
Operating Income Before Amortization	$ 118,763	(5)%	$ 125,318
As a percentage of total revenue	16%	(475) bp	21%

Operating Income Before Amortization in 2008 decreased $6.6 million from 2007, primarily due to increases in cost of sales, selling and marketing expense and general and administrative expense. The increase in these expenses was driven by acquisitions and increased losses associated with strategic investments, particularly in Germany and China and higher overall royalty rates. Excluding the impact of acquisitions not in the year ago period, Operating Income Before Amortization decreased $2.8 million, or 2%.

Operating income

For the three months ended June 30, 2008 compared to the three months ended

June 30, 2007

	Three Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
Operating income	$ 40,177	(11)%	$ 45,368
As a percentage of total revenue	11%	(495) bp	15%

Operating income in 2008 decreased $5.2 million from 2007, despite the increase in Operating Income Before Amortization described above, primarily due to increases of $4.9 million in amortization of intangibles and $3.6 million in non-cash compensation expense. Excluding the impact of acquisitions not in the year ago period, operating income increased $4.3 million, or 10%.

For the six months ended June 30, 2008 compared to the six months ended

June 30, 2007

	Six Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
Operating income	$ 86,967	(19)%	$ 106,856
As a percentage of total revenue	12%	(601) bp	18%

Operating income in 2008 decreased $19.9 million from 2007, primarily due to the decrease in Operating Income Before Amortization described above and increases of $6.9 million in amortization of intangibles and $6.5 million in non-cash compensation expense. Excluding the impact of acquisitions not in the year ago period, operating income decreased $3.2 million, or 3%.

During the second quarter of 2008, Ticketmaster began a comprehensive review of its worldwide cost structure in light of significant investments that have been made through increased operating and capital expenditures, acquisitions in recent periods, and in advance of the termination of the Live Nation agreement in 2009. As a result of this review, Ticketmaster currently intends to take the following actions, among others, which it currently expects will reduce its operating expenditures by an estimated $35 million on an annualized basis:
(i) integration of Paciolan and TicketsNow, which were acquired in January and February 2008, respectively, (ii) the rationalization of certain ticketing platforms, products and services, (iii) certain operating cost reductions, including, among others, reductions in personnel, payment processing and discretionary costs, (iv) the consolidation of customer contact centers and
(v) the review of global marketing and sponsorship costs for efficiency. Ticketmaster currently expects that achieving these actions will require some up-front costs, principally

severance costs and lease termination costs as well as the accelerated . . .