

Qumu Corp  
Form 10-Q  
August 07, 2015  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 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 June 30, 2015; 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 Number: 000-20728

QUMU CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota  
(State or other jurisdiction of incorporation or organization)

41-1577970  
(I.R.S. Employer Identification No.)

7725 Washington Avenue South, Minneapolis, MN 55439  
(Address of principal executive offices)

952-683-7900  
(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 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 (as defined in Rule 12b-2 of the Exchange Act):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller 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

Common Stock outstanding at July 31, 2015 – 9,254,316 shares of \$.01 par value Common Stock.

Table of Contents

QUMU CORPORATION

FORM 10-Q

TABLE OF CONTENTS

FOR THE QUARTER ENDED JUNE 30, 2015

	Description	Page
<u>PART I</u>	<u>FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements (unaudited)</u>	
	<u>Condensed Consolidated Balance Sheets</u>	<u>3</u>
	<u>Condensed Consolidated Statements of Operations</u>	<u>4</u>
	<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Cash Flows</u>	<u>6</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>15</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>20</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>20</u>
<u>PART II</u>	<u>OTHER INFORMATION</u>	<u>21</u>
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>21</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>21</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>21</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>21</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>21</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>21</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>22</u>
<u>SIGNATURES</u>		<u>23</u>

Table of Contents

## PART 1 – FINANCIAL INFORMATION

## Item 1. Financial Statements (unaudited)

## QUMU CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(in thousands, except share data)

	June 30, 2015	December 31, 2014
Assets		
Current assets:	(unaudited)	
Cash and cash equivalents	\$4,735	\$11,684
Marketable securities	14,753	23,486
Restricted cash	2,301	2,300
Receivables, net of allowance for doubtful accounts of \$33 and \$55, respectively	6,722	10,090
Finished goods inventories	384	168
Prepaid income taxes	512	301
Prepaid expenses and other current assets	5,565	3,633
Deferred income taxes - current	62	64
Current assets from discontinued operations	945	1,026
Total current assets	35,979	52,752
Property and equipment, net of accumulated depreciation of \$2,298 and \$1,842, respectively	2,209	1,899
Intangible assets, net of amortization	12,401	13,384
Goodwill	8,609	8,525
Other assets - non-current	3,985	3,617
Total assets	\$63,183	\$80,177
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable and other accrued liabilities	\$2,962	\$3,529
Accrued compensation	4,463	6,222
Deferred revenue	10,036	9,015
Deferred income taxes - current	32	110
Income taxes payable	24	53
Financing obligations - current	163	—
Current liabilities from discontinued operations	50	448
Total current liabilities	17,730	19,377
Non-current liabilities:		
Deferred revenue - non-current	1,143	1,047
Income taxes payable - non-current	9	8
Deferred tax liability - non-current	991	1,071
Financing obligations - non-current	315	—
Other non-current liabilities	331	401
Total non-current liabilities	2,789	2,527
Total liabilities	20,519	21,904
Commitments and contingencies (Note 11)	—	—
Stockholders' equity:		
Preferred stock, \$0.01 par value, authorized 250,000 shares, no shares issued and outstanding	—	—
Common stock, \$0.01 par value, authorized 29,750,000 shares, issued and outstanding 9,254,316 and 9,127,425, respectively	93	91
Additional paid-in capital	64,729	63,566

Edgar Filing: Qumu Corp - Form 10-Q

Accumulated deficit	(21,489	) (4,599	)
Accumulated other comprehensive loss	(669	) (785	)
Total stockholders' equity	42,664	58,273	
Total liabilities and stockholders' equity	\$63,183	\$80,177	

See accompanying notes to unaudited condensed consolidated financial statements.

3

---

Table of Contents

**QUMU CORPORATION AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Operations**  
(unaudited - in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Revenues:				
Software licenses and appliances	\$2,719	\$4,714	\$3,703	\$5,910
Service	6,045	3,690	11,030	6,423
Total revenues	8,764	8,404	14,733	12,333
Cost of revenues:				
Software licenses and appliances	706	1,464	939	2,236
Service	3,786	2,778	7,328	4,545
Total cost of revenues	4,492	4,242	8,267	6,781
Gross profit	4,272	4,162	6,466	5,552
Operating expenses:				
Research and development	2,858	2,264	5,660	4,288
Selling, general and administrative	8,298	7,421	17,490	13,938
Amortization of purchased intangibles	200	156	399	313
Total operating expenses	11,356	9,841	23,549	18,539
Operating loss	(7,084 )	(5,679 )	(17,083 )	(12,987 )
Other income (expense):				
Interest, net	15	10	31	22
Loss on currency exchange	(4 )	(6 )	(68 )	(23 )
Other, net	—	—	—	(10 )
Total other income (expense), net	11	4	(37 )	(11 )
Loss before income taxes	(7,073 )	(5,675 )	(17,120 )	(12,998 )
Income tax benefit	(146 )	(296 )	(319 )	(1,446 )
Net loss from continuing operations	(6,927 )	(5,379 )	(16,801 )	(11,552 )
Net income (loss) from discontinued operations, net of tax	(22 )	562	(89 )	2,806
Net loss	\$(6,949 )	\$(4,817 )	\$(16,890 )	\$(8,746 )
Net income (loss) per basic and diluted share:				
Net loss from continuing operations per share	\$(0.75 )	\$(0.61 )	\$(1.83 )	\$(1.32 )
Net income (loss) from discontinued operations per share	\$—	\$0.06	\$—	\$0.32
Net loss per share	\$(0.75 )	\$(0.55 )	\$(1.83 )	\$(1.00 )
Basic and diluted weighted average shares outstanding	9,243	8,748	9,206	8,724

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

## QUMU CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Statements of Comprehensive Income (Loss)

(unaudited - in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net loss	\$ (6,949	) \$ (4,817	) \$ (16,890	) \$ (8,746
Other comprehensive income (loss):				
Net changes in:				
Foreign currency translation adjustments	934	(91	) 99	(68
Change in net unrealized gain (loss) on marketable securities, net of tax	7	(13	) 17	(17
Total other comprehensive income (loss)	941	(104	) 116	(85
Total comprehensive loss	\$ (6,008	) \$ (4,921	) \$ (16,774	) \$ (8,831

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

QUMU CORPORATION AND SUBSIDIARIES  
Condensed Consolidated Statements of Cash Flows  
(unaudited - in thousands)

	Six Months Ended June 30,	
	2015	2014
Cash flows used in operating activities:		
Net loss	\$(16,890 )	\$(8,746 )
Net income (loss) from discontinued operations, net of tax	(89 )	2,806 )
Net loss from continuing operations	(16,801 )	(11,552 )
Adjustments to reconcile net loss to net cash used in continuing operating activities:		
Depreciation and amortization	1,503	924
Current income tax benefit resulting from income generated from discontinued operations	—	(1,463 )
Deferred income tax benefit	(170 )	(25 )
Loss on disposal of property and equipment	4	10
Stock-based compensation	1,068	784
Changes in operating assets and liabilities:		
Receivables	3,393	(5,456 )
Finished goods inventories	(216 )	(39 )
Prepaid income taxes / income taxes payable	(209 )	396
Prepaid expenses and other assets	(2,077 )	(1,555 )
Trade accounts payable and other accrued liabilities	(559 )	762
Accrued compensation	(1,763 )	(1,153 )
Deferred revenue	1,073	1,741
Other non-current liabilities	(69 )	(63 )
Net cash used in continuing operating activities	(14,823 )	(16,689 )
Net cash provided by (used in) discontinued operating activities	(397 )	5,980
Net cash used in operating activities	(15,220 )	(10,709 )
Cash flows provided by (used in) investing activities:		
Purchases of marketable securities	(9,250 )	(20,251 )
Sales and maturities of marketable securities	17,965	9,000
Purchases of property and equipment	(425 )	(367 )
Proceeds from sale of property and equipment	43	—
Net cash provided by (used in) continuing investing activities	8,333	(11,618 )
Net cash provided by discontinued investing activities	—	22
Net cash provided by (used in) investing activities	8,333	(11,596 )
Cash flows provided by (used in) financing activities:		
Checks written in excess of bank balance	—	74
Common stock repurchases to settle employee withholding liability	(45 )	(52 )
Principal payments on capital lease obligations	(168 )	—
Proceeds from employee stock plans	142	108
Net cash provided by (used in) continuing financing activities	(71 )	130
Net cash used in discontinued financing activities	—	(5 )
Net cash provided by (used in) financing activities	(71 )	125
Effect of exchange rate changes on cash	9	11
Net decrease in cash and cash equivalents	(6,949 )	(22,169 )
Cash and cash equivalents, beginning of period	11,684	37,725
Cash and cash equivalents, end of period	\$4,735	\$15,556
Supplemental disclosures of net cash received during the period for:		

Income taxes received (paid), net

\$(95 ) \$473

See accompanying notes to unaudited condensed consolidated financial statements.

6

---



Table of Contents

QUMU CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

(1) Basis of Presentation and Nature of Business

The consolidated financial statements include the accounts of Qumu Corporation, its subsidiaries, collectively hereinafter referred to as “Qumu” or the “Company.” All references to Qumu, Inc. shall mean the Company's wholly-owned subsidiary acquired in October 2011. All intercompany accounts and transactions have been eliminated in consolidation.

The Company previously conducted its operations through two businesses consisting of 1) its enterprise video content management software business and 2) its disc publishing business. As further described in Note 3, on June 27, 2014, the Company's shareholders approved the sale of the disc publishing assets and on July 1, 2014, the sale was completed. As a result, effective June 27, 2014, the disc publishing business was classified as held for sale and qualified for presentation as discontinued operations effective with the reporting of the Company's financial results for the second quarter of 2014. Accordingly, effective June 27, 2014, the Company has one remaining reportable segment, the enterprise video content management software business. The operational results of the disc publishing business are presented in the “Net income (loss) from discontinued operations, net of tax” line item on the Condensed Consolidated Statements of Operations. All remaining amounts presented in the accompanying condensed consolidated financial statements and notes reflect the financial results and financial position of the Company's continuing enterprise video content management software business, other than consolidated amounts reflecting operating results and balances for both the continuing and discontinued operations.

Qumu's enterprise video content management software business provides the tools businesses need to create, manage, secure, deliver and measure the success of their videos. Qumu helps organizations around the world realize the greatest possible value from video and other rich content they create and publish. The Company markets its products to customers in North America, Europe and Asia.

The accompanying condensed consolidated financial statements are unaudited and have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, pursuant to the rules and regulations of the Securities and Exchange Commission. Pursuant to such rules and regulations, certain financial information and footnote disclosures normally included in a complete set of financial statements have been condensed or omitted. However, in the opinion of management, the financial statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position and results of operations and cash flows of the interim periods presented. Operating results for these interim periods are not necessarily indicative of results to be expected for the entire year, due to seasonal, operating and other factors. In accordance with ASC 205-20, the operating results for the three and six months ended June 30, 2015 and 2014 and the financial position as of June 30, 2015 and December 31, 2014 reflect the Company's disc publishing business as discontinued operations. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K as of and for the year ended December 31, 2014.

These condensed consolidated financial statements reflect an immaterial correction to the amounts reported for the three and six months ended June 30, 2014 which resulted in a decrease to income tax expense from continuing operations and an offsetting decrease to net income from discontinued operations, net of tax, in the amount of \$1.5 million, which was previously disclosed in the Company's Form 10-Q for the quarter ended September 30, 2014. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates on items such as asset impairment charges, deferred tax asset valuation allowances and accruals for uncertain tax positions. These estimates and assumptions are based on management's best judgment. Management evaluates estimates and assumptions on an ongoing basis using its

technical knowledge, historical experience and other factors, including consideration of the impact of the current economic environment. Management believes its assumptions are reasonable and adjusts such estimates and assumptions when facts and circumstances change. Illiquid credit markets, volatile equity, foreign currency and energy markets, and declines in business and consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Any required changes in those estimates will be reflected in the financial statements in future periods.

Table of Contents

## 2) Acquisition of Kulu Valley, Ltd.

On October 3, 2014, the Company entered into Share Purchase Agreements to acquire 100% of the outstanding shares (the "Share Purchase Transaction") of Kulu Valley Ltd., a private limited company incorporated in England and Wales ("Kulu"). The acquisition was made to expand Qumu's addressable market through the offering of Kulu Valley's best-in-class video content creation capabilities and easy-to-deploy pure cloud solution, and provides Kulu's customers with access to industry leading video content management and delivery capability.

After inclusion of working capital and other adjustments required under the Share Purchase Agreements, the aggregate net purchase price totaled approximately \$14,591,000 consisting of a cash outlay of approximately \$11,556,000, net of cash acquired in the transaction of \$2,466,000, and approximately 275,000 shares of Qumu Corporation's common stock valued at the closing price per share of \$12.95 on the date of acquisition. For purposes of calculating the purchase price attributable to the 275,000 shares of Company common stock issuable in the Share Purchase Transaction, the parties agreed upon a value of \$13.75 per share. All of the shares of the Company's common stock issued in the Share Purchase Transaction were issued to shareholders of Kulu who are also employees of Kulu. Pursuant to the terms of a lock-up letter agreement, the shares issued in the Share Purchase Transaction will be restricted from transfer, subject to certain exceptions. The restrictions will lapse for all of the shares issued at 365 days following the closing of the Share Purchase Transaction. Following the acquisition, Kulu's liabilities consisted of trade payables, accrued expenses, deferred tax liabilities and deferred revenue related primarily to active software subscription agreements. Of the cash amounts payable in the acquisition, \$2,000,000 was subject to escrow for a fifteen-month period to secure certain warranty and indemnification obligations to the Company. The acquisition was funded through the use of cash held by the Company at the acquisition date and the Company's common stock. The acquisition was accounted for under the provisions of ASC 805, Business Combinations. The results of operations of Kulu are included in the Company's Consolidated Statements of Operations since October 3, 2014, the date of the acquisition. The impact of applying fair value purchase accounting adjustments resulted in a \$1.1 million reduction in the carrying value of deferred revenues. The acquisition of Kulu's assets and liabilities does not constitute a material business combination and, accordingly, pro forma results have not been included.

The following table summarizes the purchase accounting allocation of the total purchase price to Kulu's net tangible and intangible assets, with the residual allocated to goodwill (in thousands):

Aggregate purchase price, net of cash acquired	\$ 15,118	
Less: discount applied to Qumu Corporation stock for trade restrictions	(527	)
Net transaction consideration	\$ 14,591	
Current assets	\$ 1,494	
Property and equipment	140	
Intangible assets	6,663	
Goodwill	8,795	
Current liabilities	(1,170	)
Net deferred tax liabilities	(1,331	)
Total net assets acquired	\$ 14,591	

The Company is not aware of further adjustments required in the purchase price allocation.

The aggregate purchase price was allocated to the fair values of the tangible and intangible assets acquired and liabilities assumed. The fair values assigned to intangible assets were determined through the use of forecasted cash inflows and outflows, primarily applying a relief-from royalty and a multi-period excess earnings method. These valuation methods were based on management's estimates as of the acquisition date of October 3, 2014. The excess of the purchase price over the net tangible and identifiable intangible assets acquired was recorded as goodwill, which is non-deductible for tax purposes. Transaction costs of approximately \$245,000 were expensed as incurred and were included in the Company's selling, general and administrative expenses for the period ending December 31, 2014. The guidance under ASC 805 provides that intangible assets with finite lives be amortized over their estimated remaining useful lives, while goodwill and other intangible assets with indefinite lives will not be amortized, but rather tested for impairment on at least an annual basis. Useful lives for intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to contribute directly or indirectly to

future cash flows.

8

---

Table of Contents

In the aggregate, the identifiable intangible assets were valued at \$6,663,000, of which \$4,233,000 was allocated to developed technology, \$2,315,000 was allocated to customer relationships, \$74,000 was allocated to trade name and \$41,000 was allocated to covenant not-to-compete agreements. The acquired intangible assets will be amortized based on estimated expected future cash flows for a period ranging from fifteen months to nine years. Amortization expense related to the acquired intangibles is reflected in cost of service revenues and operating expenses – amortization of purchased intangibles in the Condensed Consolidated Statements of Operations. See Note 7, "Intangible Assets and Goodwill" for a rollforward of the carrying value of intangible assets and goodwill.

As part of the opening balance sheet purchase accounting, the Company established a net deferred tax liability of \$1.3 million. This consisted of a deferred tax liability of approximately \$1.5 million for the estimated future impact of the difference in the U.S. book versus U.K. statutory and tax basis of the purchased intangible assets, deferred revenues and accrued compensation. Partially offsetting this was the impact of the establishment of deferred tax assets amounting to approximately \$0.2 million for the future benefit of utilization of acquired net operating losses and the impact of cumulative temporary U.S. book to tax differences.

**(3) Divestiture of Disc Publishing Business**

On April 24, 2014, the Company entered into an asset purchase agreement (the "asset purchase agreement") with Equus Holdings, Inc. and Redwood Acquisition, Inc. (now known as Rimage Corporation, "Buyer"). Under the terms of the asset purchase agreement, the Company agreed to sell to Buyer all of the assets primarily used or primarily held for use in connection with its disc publishing business. Buyer also agreed to assume on the closing date certain agreements and liabilities relating to the disc publishing business and the acquired assets.

At a special meeting of the Company's shareholders held on June 27, 2014, the Company's shareholders approved the sale of the disc publishing assets as contemplated by the asset purchase agreement. As a result, effective June 27, 2014, the disc publishing business was classified as held for sale and qualified for discontinued operations presentation in the Company's consolidated financial statements. In accordance with ASC 205-20, the results of the discontinued disc publishing business have been presented as discontinued operations effective with the reporting of financial results for the second quarter 2014. As such, financial results for the three and six months ended June 30, 2015 and 2014 have been reported on this basis.

On July 1, 2014, the Company's sale of the disc publishing business was completed. The Company also entered into a mutual transition services agreement with Buyer and entered into a lease agreement with Buyer for the lease from Buyer of a portion of the property located at 7725 Washington Avenue South, Minneapolis, MN 55439.

The adjusted purchase price paid to the Company was \$22.0 million, of which \$2.3 million was placed in an escrow account to support the Company's indemnification obligations under the asset purchase agreement for a fifteen-month escrow period. The \$2.3 million escrow is classified as restricted cash in current assets on the Condensed Consolidated Balance Sheets as of June 30, 2015. In the third quarter of 2014, the Company recorded a gain on sale of the disc publishing business of \$16.2 million, exclusive of the impact of transaction related expenses recorded through September 30, 2014. The gain on sale attributable to the U.S. is offset for federal income tax purposes by current or prior-year tax losses but is subject to applicable state income taxes.

The operational results of the disc publishing business are presented in the "Net income (loss) from discontinued operations, net of tax" line item on the Condensed Consolidated Statements of Operations. The assets and liabilities of the discontinued business are presented on the Condensed Consolidated Balance Sheets as assets and liabilities from discontinued operations.

Other than consolidated amounts reflecting operating results and balances for both the continuing and discontinued operations, all remaining amounts presented in the accompanying condensed consolidated financial statements and notes reflect the financial results and financial position of the Company's continuing enterprise video content management software business.

Revenue, operating income, income tax expense and net income (loss) from discontinued operations were as follows (in thousands):

Three Months Ended		Six Months Ended	
June 30,		June 30,	
2015	2014	2015	2014

Edgar Filing: Qumu Corp - Form 10-Q

Net revenue	\$—	\$15,059	\$—	\$29,922
Operating income	—	1,475	—	4,617
Income tax expense	—	800	—	1,901
Net income (loss) from discontinued operations, net of tax	\$(22 )	\$562	\$(89 )	\$2,806

9

---

Table of Contents

The major classes of assets and liabilities from discontinued operations were as follows (in thousands):

	June 30, 2015	December 31, 2014
Current assets from discontinued operations	\$945	\$1,026
Accrued compensation	\$—	\$31
Other current liabilities	50	417
Current liabilities from discontinued operations	\$50	\$448

## (4) Stock-Based Compensation

The Company granted the following stock-based awards:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Stock options	130,000	47,500	140,000	47,500
Restricted stock awards and restricted stock units	143,468	87,500	150,218	87,500

With the exception of the awards described in the following paragraph, the stock options, restricted stock awards and restricted stock units granted during the three and six months ended June 30, 2015 were granted under the Company's Second Amended and Restated 2007 Stock Incentive Plan (the "2007 Plan"), a shareholder approved plan.

In addition to awards granted under the 2007 Plan, the Company granted an award of non-qualified options to purchase 130,000 shares of its common stock to a newly hired executive management level employee on May 18, 2015. The options were granted outside of any shareholder-approved plan as an inducement to accept employment with the Company. The options have an exercise price equal to the closing price of the Company's common stock as reported by the Nasdaq Stock Market on the first day of employment, vest in four equal installments on each of the first four anniversaries of the date of grant and have a term of seven years. In other respects, the options were structured to mirror the terms of the options granted under the 2007 Plan and are subject to a stock option agreement between the Company and the employee.

Included in the grant of restricted stock awards and restricted stock units during the three months ended June 30, 2015 were 25,251 performance-based restricted stock awards granted to executive management level employees for which no expense was recognized for the three and six months ended June 30, 2015 as the performance criteria are not currently expected to be met.

The Company recognized the following amounts related to its share-based payment arrangements (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Stock-based compensation cost, before income tax benefit:				
Stock options	\$158	\$207	\$373	\$415
Restricted stock awards and restricted stock units	342	228	695	369
Total stock-based compensation	\$500	\$435	\$1,068	\$784

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Stock-based compensation cost included in:				
Cost of revenues	\$39	\$11	\$75	\$18
Operating expenses	461	424	993	766
Total stock-based compensation	\$500	\$435	\$1,068	\$784

Table of Contents

## (5)Income Taxes

As of June 30, 2015 and December 31, 2014, the Company's liability for gross unrecognized tax benefits totaled \$909,000 and \$900,000, respectively (excluding interest and penalties). Total accrued interest and penalties relating to unrecognized tax benefits amounted to \$4,000 and \$1,000 on a gross basis at June 30, 2015 and December 31, 2014, respectively. The change in the liability for gross unrecognized tax benefits reflects an increase in reserves established for state research and development credits. The Company does not currently expect significant changes in the amount of unrecognized tax benefits during the next twelve months.

## (6)Marketable Securities

Marketable securities consisted of the following (in thousands):

	June 30, 2015			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	\$14,750	\$3	\$—	\$14,753
Total marketable securities	\$14,750	\$3	\$—	\$14,753
	December 31, 2014			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	\$23,500	\$—	\$(14 )	\$23,486
Total marketable securities	\$23,500	\$—	\$(14 )	\$23,486

Marketable securities are classified as either short-term or long-term in the condensed consolidated balance sheet based on their effective maturity date. All marketable securities as of June 30, 2015 and December 31, 2014 have original maturities ranging from three to 12 months and are classified as available-for-sale. Available-for-sale securities are recorded at fair value and any unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and are reported as a separate component of accumulated other comprehensive income (loss) until realized. See Note 9, "Fair Value Measurements," for a discussion of inputs used to measure the fair value of the Company's available-for-sale securities.

## (7)Intangible Assets and Goodwill

Changes in the Company's amortizable intangible assets consisted of the following (in thousands):

	June 30, 2015				
	Customer Relationships	Developed Technology	Trademarks / Trade-Names	Covenants Not to Compete	Total
Original cost	\$5,267	\$ 8,792	\$ 2,194	\$40	\$16,293
Accumulated amortization	(887)	)(2,561	)(433	)(11	)(3,892 )
Net identifiable intangible assets	\$4,380	6,231	1,761	29	\$12,401
Weighted-average useful lives (years)	10	6	15	2	9
	December 31, 2014				
	Customer Relationships	Developed Technology	Trademarks / Trade-Names	Covenants Not to Compete	Total
Original cost	\$5,226	\$ 8,770	\$ 2,193	\$40	\$16,229
Accumulated amortization	(671)	)(1,832	)(334	)(8	)(2,845 )
Net identifiable intangible assets	\$4,555	6,938	1,859	32	\$13,384
Weighted-average useful lives (years)	10	6	15	2	9



Table of Contents

Changes to the carrying amount of net amortizable intangible assets for the six months ended June 30, 2015 consisted of the following (in thousands):

	Six Months Ended June 30, 2015
Balance, beginning of period	\$13,384
Amortization expense	(1,032 )
Currency translation	49
Balance, end of period	\$12,401

Amortization expense associated with the developed technology included in cost of service revenues was \$317,000 and \$140,000 for the three months ended June 30, 2015 and 2014, respectively, and \$633,000 and \$280,000 for the six months ended June 30, 2015 and 2014, respectively. Amortization expense associated with other acquired intangible assets included in operating expenses as "Amortization of purchased intangibles" was \$200,000 and \$156,000 for the three months ended June 30, 2015 and 2014, respectively, and \$399,000 and \$313,000 for the six months ended June 30, 2015 and 2014, respectively.

Changes to the carrying amount of goodwill for the six months ended June 30, 2015 consisted of the following (in thousands):

	Six Months Ended June 30, 2015
Balance, beginning of period	\$8,525
Currency translation	84
Balance, end of period	\$8,609

**(8) Financing Obligations**

During the six months ended June 30, 2015, the Company acquired \$411,000 in computer and network equipment through the issuance of capital leases. Balances for assets acquired under capital lease obligations were as follows (in thousands):

	June 30, 2015	December 31, 2014
Computer and network equipment	\$411	\$—
Accumulated depreciation	(23 )	—
Assets acquired under capital lease obligations, net	\$388	\$—

As of June 30, 2015, the future minimum payments under capital leases with initial terms of one year or more are as follows (in thousands):

Periods ending December 31,	
2015	\$91
2016	181
2017	181
2018	61
Total minimum lease payments	514
Less amount representing interest	(36 )
Present value of net minimum lease payments	478
Less current portion	(163 )
Balance, end of period	\$315

Table of Contents

## (9) Fair Value Measurements

A hierarchy for inputs used in measuring fair value is in place that distinguishes market data between observable independent market inputs and unobservable market assumptions by the reporting entity.

The hierarchy is intended to maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that the most observable inputs be used when available. Three levels within the hierarchy may be used to measure fair value:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Inputs include data points that are observable such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) such as interest rates and yield curves that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs are generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect an entity's own estimates of assumptions that market participants would use in pricing the asset or liability.

The Company's assets and liabilities measured at fair value on a recurring basis and the fair value hierarchy utilized to determine such fair values is as follows at June 30, 2015 and December 31, 2014, respectively (in thousands):

	Fair Value Measurements Using			
	Total Fair Value at June 30, 2015	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Certificates of deposit	\$14,753	\$14,753	\$—	\$—
Total assets	\$14,753	\$14,753	\$—	\$—
	Fair Value Measurements Using			
	Total Fair Value at December 31, 2014	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Certificates of deposit	\$23,486	\$23,486	\$—	\$—
Total assets	\$23,486	\$23,486	\$—	\$—

Certificates of deposit are classified as Level 1 in the above table and are carried at fair value based on quoted market prices. The Company uses quoted market prices as all of the certificates of deposit have maturity dates within one year from the Company's date of purchase and trade in active markets.

## (10) Computation of Net Loss From Continuing Operations Per Share of Common Stock

Basic net loss from continuing operations per common share is determined by dividing net loss from continuing operations by the basic weighted average number of shares of common stock outstanding. Diluted net loss per common share includes the potentially dilutive effect of common shares issued in connection with outstanding stock options using the treasury stock method and the dilutive impact of restricted stock units. Stock options and restricted stock units to acquire weighted average common shares of 1,632,000 and 1,647,000 for the three and six months ended June 30, 2015, respectively, have been excluded from the computation of diluted weighted average common shares as their effect is anti-dilutive. Stock options and restricted stock units to acquire weighted average common shares of 1,755,000 and 1,768,000 for the three and six months ended June 30, 2014, respectively, have been excluded from the computation of diluted weighted average common shares as their effect is anti-dilutive.

The Company calculates net loss per share pursuant to the two-class method, which requires all outstanding unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or

unpaid) to be

13

---

Table of Contents

considered participating securities and included in the computation of basic and diluted earnings per share using the two-class method. The Company included in its computation of weighted average shares outstanding approximately 196,000 and 174,000 weighted average outstanding shares of unvested restricted stock deemed to be participating securities for the three and six months ended June 30, 2015, respectively. The Company included in its computation of weighted average shares outstanding approximately 89,000 and 78,000 weighted average outstanding shares of unvested restricted stock deemed to be participating securities for the three and six months ended June 30, 2014, respectively. The following table identifies the components of net loss per basic and diluted share (in thousands, except for per share data):

	_____	_____	_____	_____	_____
Net earnings available to common shareholders	\$ 68,077	\$ 16,550	\$ 121,867	\$ (138,417)	\$ 68,077
	_____	_____	_____	_____	_____

Edgar Filing: Qumu Corp - Form 10-Q

**Statement of operations for the nine months ended September 30, 2005:**

Revenue	\$		\$	70,849	\$	3,975,980	\$		\$	4,046,829
Operating expenses				(73,778)		(3,828,897)				(3,902,675)
Interest income (expense), net		(226,519)		(282)		290,158				63,357
Other income, net		699,786		20,240		768,192		(909,018)		579,200
Income tax expense				(479)		(311,173)				(311,652)
Minority interest		(159)				(1,792)				(1,951)
		<u>473,108</u>		<u>16,550</u>		<u>892,468</u>		<u>(909,018)</u>		<u>473,108</u>
Earnings from continuing operations		473,108		16,550		892,468		(909,018)		473,108
Discontinued operations, net of tax		289,975				289,804		(289,804)		289,975
		<u>763,083</u>		<u>16,550</u>		<u>1,182,272</u>		<u>(1,198,822)</u>		<u>763,083</u>
Net earnings		763,083		16,550		1,182,272		(1,198,822)		763,083
Preferred dividends		(7,938)								(7,938)
		<u>755,145</u>		<u>16,550</u>		<u>1,182,272</u>		<u>(1,198,822)</u>		<u>755,145</u>
Net earnings available to common shareholders	\$	755,145	\$	16,550	\$	1,182,272	\$	(1,198,822)	\$	755,145

**Statement of cash flows for the nine months ended September 30, 2005:**

Cash flows (used in) provided by operating activities	\$	(829,863)	\$	18,207	\$	359,488	\$		\$	(452,168)
Cash flows (used in) provided by investing activities		(36,915)		101,983		1,525,520				1,590,588
Cash flows provided by (used in) financing activities		870,008		(42,804)		(2,629,139)				(1,801,935)
Net cash provided by discontinued operations						599,771				599,771
Effect of exchange rate changes on cash and cash equivalents		(3,230)		(271)		(23,055)				(26,556)
Cash and cash equivalents at beginning of period						999,698				999,698
		<u>870,008</u>		<u>(42,804)</u>		<u>(2,629,139)</u>		<u>599,771</u>		<u>(1,801,935)</u>
Cash and cash equivalents at end of period	\$		\$	77,115	\$	832,283	\$		\$	909,398

Edgar Filing: Qumu Corp - Form 10-Q

For the three and nine months ended September 30, 2004:

	IAC	Ask Jeeves	Non-Guarantor Subsidiaries	Total Eliminations	IAC Consolidated
(In thousands)					
<b>Statement of operations for the three months ended September 30, 2004:</b>					
Revenue	\$	\$	\$ 957,293	\$	\$ 957,293
Operating expenses			(940,513)		(940,513)
Interest income (expense), net	42,978		(17,587)		25,391
Other income (expense), net	(8,205)		15,288	(7,830)	(747)
Income tax expense			(6,215)		(6,215)
Minority interest	(236)		(436)		(672)
Earnings from continuing operations	34,537		7,830	(7,830)	34,537
Discontinued operations, net of tax	58,204		58,204	(58,204)	58,204
Net earnings	92,741		66,034	(66,034)	92,741
Preferred dividends	(3,263)				(3,263)
Net earnings available to common shareholders	\$ 89,478	\$	\$ 66,034	\$ (66,034)	\$ 89,478
<b>Statement of operations for the nine months ended September 30, 2004:</b>					
Revenue	\$	\$	\$ 2,953,092	\$	\$ 2,953,092
Operating expenses			(2,889,002)		(2,889,002)
Interest income (expense), net	104,024		(28,670)		75,354
Other income (expense), net	36,482		71,815	(83,529)	24,768
Income tax expense	(31,352)		(22,257)		(53,609)
Minority interest	(236)		(1,449)		(1,685)
Earnings from continuing operations	108,918		83,529	(83,529)	108,918
Discontinued operations, net of tax	98,546		98,546	(98,546)	98,546
Net earnings	207,464		182,075	(182,075)	207,464
Preferred dividends	(9,789)				(9,789)
Net earnings available to common shareholders	\$ 197,675	\$	\$ 182,075	\$ (182,075)	\$ 197,675
<b>Statement of cash flows for the nine months ended September 30, 2004:</b>					
Cash flows provided by operating activities	\$ 72,140	\$	\$ 273,291	\$	\$ 345,431
Cash flows used in investing activities	(174,479)		(631,681)		(806,160)
Cash flows provided by (used in) financing activities	102,339		(447,980)		(345,641)
Net cash provided by discontinued operations			1,021,718		1,021,718
Effect of exchange rate changes on cash and cash equivalents			9,980		9,980
Cash and cash equivalents at beginning of period			759,617		759,617
Cash and cash equivalents at end of period	\$	\$	\$ 984,945	\$	\$ 984,945

Edgar Filing: Qumu Corp - Form 10-Q

<b>IAC</b>	<b>Ask Jeeves</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Total Eliminations</b>	<b>IAC Consolidated</b>
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

28

---

**NOTE 11 DERIVATIVE INSTRUMENTS**

In 2004 and 2003, the Company entered into various interest rate swap agreements with notional amounts of \$250 million and \$150 million, respectively, related to a portion of the 2002 Senior Notes. The interest rate swaps allow IAC to receive fixed rate amounts in exchange for making floating rate payments based on LIBOR, which effectively changes the Company's interest rate exposure on a portion of the debt. As of September 30, 2005, of the \$750 million total notional amount of the 2002 Senior Notes, the interest rate is fixed on \$400 million with the balance of \$350 million remaining at a floating rate of interest based on the spread over 6-month LIBOR. To further manage risk, the Company sold swap agreements for nominal gains during 2005 and 2004, which are being amortized over the remaining life of the 2002 Senior Notes. The changes in fair value of the interest rate swaps at September 30, 2005 and 2004 resulted in an unrealized loss of \$5.3 million and an unrealized gain of \$0.1 million, respectively. The fair value of the contracts is recorded in the accompanying balance sheet in other non-current assets with a corresponding offset to the carrying value of the related debt. The gain or loss on the derivative in the period of change and the loss or gain of the hedged item attributed to the hedged risk are recognized in the accompanying statements of operations and are offsetting.

LendingTree Loans, in connection with its mortgage banking operations, is exposed to additional interest rate risk. The fair value of loans held for sale is subject to change primarily due to changes in market interest rates. LendingTree Loans hedges the changes in fair value of the loans held for sale primarily by using mortgage forward delivery contracts. These hedging relationships are documented as fair value hedges. The fair value of loans held for sale is determined using current secondary market prices for loans with similar coupons, maturities and credit quality. For loans held for sale that are hedged with forward delivery contracts, the carrying value of the loans held for sale and the derivatives is adjusted for the change in fair value during the time the hedge was deemed to be highly effective. The effective portion of the derivative and the loss or gain of the hedged item attributed to the hedged risk are recognized in the accompanying statement of operations as a component of revenue and are offsetting. If it is determined that the hedging relationship is not highly effective, hedge accounting is discontinued. When hedge accounting is discontinued, the affected loans held for sale are no longer adjusted for changes in fair value, however, the changes in fair value of derivative instruments are recognized in current earnings as a component of revenue. For the three and nine months ended September 30, 2005, the Company recognized a less than \$0.1 million loss and \$1.2 million loss, respectively, related to hedge ineffectiveness and \$1.3 million and \$0.7 million in gains, respectively, related to changes in the fair value of derivative instruments when hedge accounting was discontinued. The fair value of the hedge instruments is recorded in other current assets in the accompanying balance sheet.

LendingTree Loans enters into commitments with consumers to originate loans at a locked in interest rate (interest rate lock commitments "IRLCs"). IAC reports IRLCs as derivative instruments in accordance with SEC Staff Accounting Bulletin No. 105, "Application of Accounting Principles to Loan Commitments" ("SAB 105"), and SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and determines the fair value of IRLCs using current secondary market prices for underlying loans with similar coupons, maturity and credit quality, subject to the anticipated loan funding probability, or fallout factor. Similar to loans held for sale, the fair value of IRLCs is subject to change primarily due to changes in interest rates and fallout factors. Under LendingTree Loans' risk management policy, LendingTree Loans hedges the changes in fair value of IRLCs primarily by entering into forward delivery contracts which can reduce the volatility of earnings. Both the IRLCs



and the related hedging instrument do not qualify for hedge accounting and are recorded at fair value with changes in fair value being recorded in current earnings as a component of revenue in the accompanying statement of operations. The change in the fair value of these derivative instruments for the three and nine months ended September 30, 2005 resulted in a gain of \$2.8 million and \$0.9 million, respectively, which has been recognized in the accompanying statement of operations. The fair value of the IRLCs is recorded in other current liabilities in the accompanying balance sheet.

On April 29, 2003, one of the Company's foreign subsidiaries entered into a five-year foreign exchange forward contract with a notional amount of \$38.6 million, which was used to hedge against the change in value of a liability denominated in a currency other than the subsidiary's functional currency. This derivative contract has been designated as a cash flow hedge for accounting purposes and foreign exchange re-measurement gains and losses related to the contract and liability are recognized each period in the statements of operations and are offsetting. In addition, the remaining effective portion of the derivative's gain or loss is recorded in other comprehensive income (loss) until the liability is extinguished. The change in fair value of this foreign exchange forward contract at September 30, 2005 and 2004 resulted in an unrealized loss of \$6.2 million and \$6.1 million, respectively.

As a result of the Ask Jeeves acquisition, upon conversion of the Ask Jeeves' subordinated convertible notes, holders would receive shares of IAC common stock. Following the Spin-Off, IAC became obligated to deliver shares of both IAC and Expedia common stock upon conversion of the Ask Jeeves subordinated convertible notes. This obligation represents a derivative liability in IAC's accompanying balance sheet because it is not denominated solely in shares of IAC common stock. This derivative liability was valued at \$90.3 million at September 30, 2005. Under the separation agreement relating to the Spin-Off, Expedia contractually assumed the obligation to deliver shares of Expedia common stock to IAC upon conversion by the holders of the Ask Jeeves subordinated convertible notes. This represents a derivative asset in IAC's accompanying balance sheet valued at \$88.2 million at September 30, 2005. Both of these derivatives will be maintained at fair value each reporting period with any changes in fair value reflected in the statement of operations. The net change in the fair value of these derivatives for the three and nine months ended September 30, 2005 resulted in a gain of \$8.9 million, which has been recognized in other income (expense) in the accompanying statement of operations. The derivative asset related to the Ask Jeeves subordinated convertible notes is recorded in other non-current assets and the derivative liability related to the Ask Jeeves subordinated convertible notes is recorded in other long-term liabilities in the accompanying balance sheet.

In connection with prior transactions, including among others, the acquisition of Ticketmaster, Hotels.com, and Hotwire.com, IAC assumed a number of warrants that were adjusted to become exercisable for shares of IAC common stock. Following the Spin-Off, IAC remained the contractually obligated party with respect to these warrants and each warrant represents the right to receive upon exercise by the holders thereof that number of shares of IAC common stock and Expedia common stock that the warrant holder would have received had the holder exercised the warrant immediately prior to the Spin-Off. Under the separation agreement, Expedia contractually assumed the obligation to deliver shares of Expedia common stock to IAC upon exercise of these warrants. This obligation of IAC to deliver shares of both IAC and Expedia common stock upon exercise of these warrants created a liability in the form of a derivative in IAC's accompanying balance sheet that will be maintained at fair value each reporting period with any changes in fair value reflected in the consolidated statement of operations. The derivative liability was valued at \$4.3 million at September 30, 2005. The contractual

obligation of Expedia to deliver shares of Expedia common stock to IAC upon exercise by the warrant holders also created a derivative asset in IAC's accompanying balance sheet valued at \$1.4 million at September 30, 2005. The net change in the fair value of these derivatives for the three and nine months ended September 30, 2005 resulted in a gain of \$0.5 million which has been recognized in other income (expense) in the accompanying statement of operations. The derivative asset related to the warrants is recorded in other non-current assets and the derivative liability related to the warrants is recorded in other long-term liabilities in the accompanying balance sheet.

#### NOTE 12 SALE OF VUE INTERESTS

On June 7, 2005, IAC completed a transaction with General Electric and Vivendi Universal in which IAC sold its common and preferred interests in VUE for approximately \$3.4 billion in aggregate consideration consisting of approximately \$1.9 billion in cash, 28.3 million IAC common shares formerly held by NBC Universal and \$115 million of television advertising time that NBC Universal will provide through its media outlets over a three-year period. Based upon the closing price of IAC common stock on June 7, 2005 of \$49.28 (as adjusted for the August 2005 reverse stock split), the 28.3 million IAC common shares have a market value of approximately \$1.4 billion. The transaction resulted in an after-tax gain of \$322.1 million. The after-tax gain was determined as follows (in thousands):

Proceeds received:	
Cash	\$ 1,882,291
Value of 28.3 million IAC common shares	1,394,903
Television advertising time	115,000
	<hr/>
Total proceeds received	3,392,194
	<hr/>
Book value of VUE interests:	
Common interest	804,733
Preferred A interest	632,444
Preferred B interest	1,428,530
	<hr/>
Total book value of VUE interests	2,865,707
	<hr/>
Subtotal	526,487
Less: Transaction costs	(3,000)
	<hr/>
Pre-tax gain	523,487
Income tax expense	(201,384)
	<hr/>
After-tax gain on sale of VUE interests	\$ 322,103
	<hr/>

#### NOTE 13 DISCONTINUED OPERATIONS

In March 2005, IAC, through its subsidiary HSN International, entered into an agreement to sell its 48.6% ownership in EUVÍA for approximately \$204 million. The sale closed on June 2, 2005 and resulted in a pre-tax gain of \$129.3 million and an after-tax gain of \$79.6 million. EUVÍA operates two television channels, 9Live, an interactive game and quiz show-oriented television channel, and Sonnanklar, a travel-oriented television channel. In addition, during the second quarter of 2005, TV Travel Shop ceased the sale of third-party travel products through its broadcast programming. Further,

Edgar Filing: Qumu Corp - Form 10-Q

on August 9, 2005, IAC completed the spin-off of its travel business, including Expedia.com, Hotels.com, Hotwire and TripAdvisor, into an independent public company, Expedia, Inc. Accordingly, the results of operations and statements of position of these businesses are presented as discontinued operations for all periods presented. The 2005 results include a tax benefit of approximately \$62.8 million related to the write-off of the Company's investment in TV Travel Shop. The net revenue and net earnings, net of the effect of any minority interest for the aforementioned discontinued operations for the applicable periods, were as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Net revenue	\$ 260,951	\$ 547,850	\$ 1,365,060	\$ 1,524,564
Income before income taxes and minority interest	\$ 78,632	\$ 98,124	\$ 276,936	\$ 205,953
Income tax expense	(46,148)	(34,147)	(61,236)	(98,379)
Minority interest in income of consolidated subsidiaries	633	(5,773)	(5,373)	(9,028)
Net earnings	\$ 33,117	\$ 58,204	\$ 210,327	\$ 98,546

The net assets transferred to Expedia as of August 9, 2005 and as reported as discontinued operations as of December 31, 2004 were as follows (in thousands):

	August 9, 2005	December 31, 2004
Current assets	\$ 544,511	\$ 308,391
Goodwill	\$ 5,889,127	\$ 5,849,139
Intangible assets, net	1,227,380	1,279,361
Other non-current assets	126,453	232,219
Total non-current assets	\$ 7,242,960	\$ 7,360,719
Current liabilities	\$ 1,496,530	\$ 982,178
Deferred income taxes	\$ 368,656	\$ 349,293
Other long-term liabilities	109,933	68,683
Total non-current liabilities	\$ 478,589	\$ 417,976

**Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations**

**GENERAL**

**Management Overview**

IAC/ InterActiveCorp operates leading and diversified businesses in sectors being transformed by the internet, online and offline...our mission is to harness the power of interactivity to make daily life easier and more productive for people all over the world. All references to "IAC," the "Company," "we," "our," or "us" in this report are to IAC/InterActiveCorp.

IAC consists of the following sectors:

Retailing, which includes U.S., including Cornerstone Brands, Inc. (since April 2005), and International;

Services, which includes Ticketing, Lending, Real Estate, Teleservices and Home Services (since September 2004);

Media & Advertising, which includes Ask Jeeves, Inc. (since July 2005); and

Membership & Subscriptions, which includes Vacations, Personals and Discounts.

On December 21, 2004, IAC announced its plans to separate its travel businesses into an independent public company in order to better achieve certain strategic objectives of its various businesses. We refer to this transaction as the "Spin-Off" and to the new company that holds IAC's former travel and travel-related businesses as "Expedia". IAC completed the Spin-Off prior to the commencement of trading on August 9, 2005. Immediately prior to the Spin-Off, IAC effected a one-for-two reverse stock split. Since the completion of the Spin-Off:

Expedia consists of the travel and travel-related businesses and investments that IAC operated (other than Interval and TV Travel Shop, which were not spun-off by IAC with Expedia); and

IAC continues to operate and/or manage its remaining businesses and investments, which primarily consist of its Retailing, Services, Media & Advertising and Membership & Subscriptions sectors. TV Travel Shop ceased operations in the second quarter of 2005.

In addition, in March 2005, the Company entered into an agreement to sell its 48.6% ownership in EUVÍA. The sale closed on June 2, 2005.

Accordingly, the results of operations and statements of position of Expedia, EUVÍA and TV Travel Shop have been presented as discontinued operations for all periods presented. Further, all IAC common stock share information and related per share prices have been adjusted to reflect IAC's one-for-two reverse stock split.

On April 1, 2005, IAC completed its acquisition of Cornerstone Brands, Inc. ("Cornerstone Brands"), a portfolio of leading print catalogs and online retailing sites that sell home products and leisure and casual apparel, for approximately \$715 million, principally in cash.

In addition, on June 7, 2005, IAC completed a transaction with NBC Universal in which IAC sold its common and preferred interests in Vivendi Universal Entertainment, LLLP ("VUE"), a joint venture formed in May 2002 between the Company and Vivendi Universal, S.A., for approximately \$3.4 billion in aggregate consideration.

Further, on July 19, 2005 IAC, completed the acquisition of Ask Jeeves, Inc. ("Ask Jeeves"), a leading provider of world-class information retrieval technologies, brands and services that are available to consumers across a range of platforms, including destination websites, downloadable search-based applications and portals. Under the terms of the agreement, IAC issued 1.2668 shares of IAC common

Edgar Filing: Qumu Corp - Form 10-Q

stock for each share of Ask Jeeves common stock in a tax-free transaction valued as of the date of the agreement at approximately \$1.7 billion, net of cash acquired. On May 5, 2005, IAC completed the buy back of 26.4 million shares of IAC common stock through its previously authorized share repurchase programs. These shares represent approximately sixty percent of the number of fully diluted shares IAC issued for the Ask Jeeves acquisition, thus effectively offsetting a substantial portion of the dilution from the transaction.

**Results of operations for the three and nine months ended September 30, 2005 compared to the three and nine months ended September 30, 2004**

Set forth below are the contributions made by our various sectors, our emerging businesses and corporate expenses to consolidated revenues, operating income and Operating Income Before Amortization (as defined in IAC's Principles of Financial Reporting) for the three and nine months ended September 30, 2005 and 2004 (rounding differences may occur):

	Three months ended September 30,				Nine months ended September 30,			
	2005	Percentage of total	2004	Percentage of total	2005	Percentage of total	2004	Percentage of total
(Dollars in millions)								
<b>Revenue:</b>								
Retailing	\$ 749.5	51%	\$ 509.1	53%	\$ 2,110.0	52%	\$ 1,587.6	54%
Services	486.2	33%	306.3	32%	1,363.9	34%	932.4	32%
Media & Advertising	83.5	6%	7.9	1%	104.0	3%	20.6	1%
Membership & Subscriptions	162.8	11%	138.9	15%	477.9	12%	429.1	15%
Emerging Businesses	9.6	1%	1.7	0%	19.6	0%	1.9	0%
Intersegment elimination	(8.3)	(1)%	(6.6)	(1)%	(28.6)	(1)%	(18.5)	(1)%
<b>Total</b>	<b>\$ 1,483.3</b>	<b>100%</b>	<b>\$ 957.3</b>	<b>100%</b>	<b>\$ 4,046.8</b>	<b>100%</b>	<b>\$ 2,953.1</b>	<b>100%</b>

	Three months ended September 30,				Nine months ended September 30,			
	2005	Percentage of total	2004	Percentage of total	2005	Percentage of total	2004	Percentage of total
(Dollars in millions)								

<b>Operating Income (Loss):</b>								
	Three months ended September 30,				Nine months ended September 30,			
	2005	Percentage of total	2004	Percentage of total	2005	Percentage of total	2004	Percentage of total
(Dollars in millions)								
Retailing	\$ 38.0	178%	\$ 26.6	159%	\$ 126.6	88%	\$ 84.3	132%
Services	69.6	327%	31.1	185%	179.6	125%	114.9	179%
Media & Advertising	(0.9)	(4)%	(12.1)	(72)%	0.0	0%	(45.0)	(70)%
Membership & Subscriptions	27.4	128%	6.8	41%	59.7	41%	28.0	44%
Emerging Businesses	(2.4)	(11)%	(0.2)	(1)%	(8.5)	(6)%	(2.2)	(3)%
Corporate and other	(110.4)	(518)%	(35.5)	(211)%	(213.3)	(148)%	(115.9)	(181)%
<b>Total</b>	<b>\$ 21.3</b>	<b>100%</b>	<b>\$ 16.8</b>	<b>100%</b>	<b>\$ 144.2</b>	<b>100%</b>	<b>\$ 64.1</b>	<b>100%</b>

Edgar Filing: Qumu Corp - Form 10-Q

	Three months ended September 30,				Nine months ended September 30,			
	2005	Percentage of total	2004	Percentage of total	2005	Percentage of total	2004	Percentage of total
(Dollars in millions)								
<b>Operating Income Before Amortization:</b>								
Retailing	\$ 54.0	35%	\$ 40.2	52%	\$ 172.0	44%	\$ 125.0	49%
Services	86.0	55%	45.1	59%	232.6	59%	154.7	60%
Media & Advertising	9.3	6%	(2.4)	(3)%	10.2	3%	(11.4)	(4)%
Membership & Subscriptions	36.1	23%	16.7	22%	86.2	22%	60.0	23%
Emerging Businesses	(2.4)	(2)%		0%	(8.3)	(2)%	(1.8)	(1)%
Corporate and other	(26.6)	(17)%	(22.8)	(30)%	(100.9)	(26)%	(70.8)	(28)%
<b>Total</b>	<b>\$ 156.3</b>	<b>100%</b>	<b>\$ 76.9</b>	<b>100%</b>	<b>\$ 391.9</b>	<b>100%</b>	<b>\$ 255.8</b>	<b>100%</b>

**IAC Consolidated Results**

*For the three months ended September 30, 2005 compared to the three months ended September 30, 2004*

Revenue increased \$526.0 million, or 55%, as a result of revenue increases of \$240.5 million, or 47%, from the Retailing sector, \$179.9 million, or 59%, from the Services sector, \$75.6 million, or 958%, from the Media & Advertising sector and \$23.9 million, or 17%, from the Membership & Subscriptions sector. The revenue growth from the Retailing sector was driven primarily by the acquisition of Cornerstone Brands on April 1, 2005 as well as improved top-line results at HSN. The increase in the Services sector was driven by significant growth at Lending, fueled by direct loan originations and growth in the Lending exchange, as well as strong domestic concert and sporting event ticket sales and international expansion at our Ticketing segment. The revenue growth from the Media & Advertising sector was driven primarily by the acquisition of Ask Jeeves on July 19, 2005, while Membership & Subscription results were led by strong results at Personals, which increased worldwide subscribers by 19%.

Gross profit increased \$267.1 million, or 65%, reflecting improved results at the Services sector, which were primarily driven by the Lending and Ticketing results, and the Retailing sector, which was primarily driven by the acquisition of Cornerstone Brands. The increase in gross profit also reflects improved results in the Media & Advertising sector due primarily to the acquisition of Ask Jeeves and to a lesser extent, improved results in the Membership & Subscriptions driven by the growth in Personals.

Selling and marketing expenses increased \$125.5 million, or 90%, primarily reflecting the impact of the Cornerstone Brands acquisition in the Retailing sector, increases at Lending and the impact of the Ask Jeeves acquisition in the Media & Advertising sector. The Lending segment experienced increased selling and marketing expense in order to build its brands through on-line and direct consumer advertising mediums. In addition, Personals' increased selling and marketing expenses primarily due to higher customer acquisition costs relating primarily to the company's offline marketing campaign which began in the first quarter of 2005 and continued through the third quarter. As a percentage of revenue, selling and marketing expense increased to 18% for 2005 from 15% in 2004 on a consolidated IAC basis.

General and administrative expense increased \$48.3 million, or 40%, due primarily to the inclusion of the results of LendingTree Loans, Cornerstone Brands and Ask Jeeves in the 2005 results as well as the acquisition of ServiceMagic in September 2004. In addition, several operating segments incurred higher employee costs in 2005 due in part to increased head count and IAC incurred approximately \$2.1 million of transaction expenses in connection with the Spin-Off in the third quarter of 2005.

## Edgar Filing: Qumu Corp - Form 10-Q

Depreciation expense increased \$2.2 million, or 6%, due primarily to capital expenditures of \$58.3 million during 2005 and various acquisitions, partially offset by certain fixed assets becoming fully depreciated during the period.

Operating Income Before Amortization increased \$79.4 million, or 103%, due primarily to the strong growth from each of the principal sectors.

Operating income increased \$4.5 million, or 27%, reflecting the increase in Operating Income Before Amortization noted above, which was almost entirely offset by the significant increase in non-cash compensation of \$71.3 million. The increase in non-cash compensation was principally due to a \$67.0 million charge related to the treatment of vested stock options in connection with the Spin-Off and, to a lesser degree, non-cash compensation expense related to unvested stock options and restricted stock assumed in the Ask Jeeves and Cornerstone Brands acquisitions. These increases were partially offset by a reduction in non-cash compensation expense of \$5.5 million due to the cumulative effect of a change in the Company's estimate related to the number of stock based awards that are expected to vest.

Interest income decreased \$25.8 million in 2005 compared with 2004 primarily as a result of decreased interest income earned on the VUE preferred securities as these interests were sold on June 7, 2005. Interest expense decreased \$9.3 million in 2005 compared with 2004 primarily as a result of lower amortization of investment premiums, partially offset by interest expense on the Ask Jeeves convertible notes and interest expense on the warehouse lines of credit at LendingTree Loans.

The Company sold its interests in VUE in June 2005 and therefore had no equity income from its investment in VUE for the three months ended September 30, 2005. The Company realized \$0.6 million of equity income from its investment in VUE for the three months ended September 30, 2004.

Equity in income of unconsolidated affiliates and other increased by \$15.6 million due primarily to a \$9.4 million gain related to the change in fair value during the period ended September 30, 2005 of the derivatives that were created in the Spin-Off. The derivatives arise due to IAC's obligation to deliver both IAC and Expedia shares upon the conversion of the Ask Jeeves convertible notes and the exercise of certain IAC warrants. These derivatives are marked to market each quarter with the change in fair value recorded as "Other income (loss)" in the accompanying statement of operations. Additionally, there was a \$3.5 million increase in the equity income of unconsolidated affiliates of HSN International, including Jupiter Shop Channel.

The effective tax rate from continuing operations was 17% in 2005 and 15% in 2004. The 2005 effective tax rate was lower than the statutory rate of 35% due principally to the recognition of a capital loss, a non-taxable gain associated with derivatives, interest received on IRS refunds, and net adjustments related to the reconciliation of provision accruals to tax returns. These favorable items were partially offset by state taxes and non-deductible non-cash compensation. In 2004, the effective tax rate for continuing operations was lower than the statutory rate due to tax-exempt interest and foreign tax credits, partially offset by state taxes and foreign losses for which no benefit was recognized.

Minority interest in income of consolidated subsidiaries principally represents minority ownership of certain of Ticketmaster's international operations.

In March 2005, the Company entered into an agreement to sell its 48.6% ownership interest in EUVÍA. The sale closed on June 2, 2005. During the second quarter of 2005, TV Travel Shop ceased the sale of third-party travel products through its broadcast programming. Further, on August 9, 2005, IAC completed the Spin-Off to its shareholders. Accordingly, the results of operations and statements of position of these businesses are presented as discontinued operations for all periods presented. Income from these discontinued operations in the third quarter of 2005 and 2004 was \$33.1 million and \$58.2 million, respectively, net of tax. The 2005 amounts are principally due to the results of Expedia

## Edgar Filing: Qumu Corp - Form 10-Q

through August 8, 2005, as the Spin-Off was effected before the commencement of trading on August 9, 2005. The 2004 amounts reflect the results of Expedia for the full quarter as well as EUVÍA and TVTS. Expedia's results for the third quarter of 2005 include a \$35.3 million, or \$22.0 million after-tax, favorable adjustment to non-cash compensation expense related to the cumulative effect of a change in the Company's estimate related to the number of stock-based awards that are expected to vest.

### *For the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004*

Revenue increased \$1.1 billion, or 37%, as a result of revenue increases of \$522.4 million, or 33%, from the Retailing sector, \$431.6 million, or 46%, from the Services sector, \$83.4 million, or 404%, from the Media & Advertising sector and \$48.9 million, or 11% from Membership & Subscriptions. The revenue growth from the Retailing and Media & Advertising sectors were driven primarily by the acquisition of Cornerstone Brands and the acquisition of Ask Jeeves, respectively. The increase in the Services sector was driven by significant growth at LendingTree, fueled in part by loan originations, as well as strong domestic ticket sales and international expansion at our Ticketing segment. The growth in Membership & Subscriptions was led by Personals.

Gross profit increased \$559.4 million, or 45%, reflecting improved operating results at each of the principal sectors. The increase in gross profit at each of the sectors was driven primarily by the same factors noted above in the three month discussion.

Selling and marketing expense increased \$264.9 million, or 64%. As a percentage of revenue, selling and marketing expense increased to 17% for 2005 from 14% in 2004. The increase in selling and marketing expense primarily reflects the impact of the Cornerstone Brands acquisition in the Retailing sector, increases at Lending as noted above in the three month discussion, and the acquisition of Ask Jeeves in the Media & Advertising sector. In addition, Personals experienced higher selling and marketing expenses related to higher customer acquisition costs relating primarily to the company's offline marketing campaign as noted above in the three month discussion.

General and administrative expense increased \$132.5 million, or 37%, due primarily to the acquisitions noted above as well as the acquisition of ServiceMagic in September 2004. General and administrative expenses also reflect increased employee costs at several operating segments. In addition, IAC incurred approximately \$16.1 million of transaction expenses in connection with the Spin-Off in 2005.

Depreciation expense increased \$3.5 million, or 3%, due primarily to capital expenditures of \$175.7 million during 2005 and various acquisitions, partially offset by certain fixed assets becoming fully depreciated during the period.

Operating Income Before Amortization increased \$136.1 million, or 53%, due primarily to the improved operating results at each of the principal sectors.

Operating income increased \$80.1 million, or 125%, reflecting the increase in Operating Income Before Amortization noted above, as well as decreased amortization of intangibles of \$8.7 million, or 6%, and decreased non-cash distribution and marketing expense of \$1.3 million. Partially offsetting these decreases was an increase in non-cash compensation expense of \$66.0 million, or 138%, due primarily to the charge related to the treatment of vested stock options in connection with the Spin-Off as noted above in the three month discussion.

Interest income decreased \$19.4 million in 2005 compared with 2004 as a result of a decrease in interest income earned on the VUE preferred securities, as these interests were sold on June 7, 2005, partially offset by higher interest rates earned during 2005. Interest expense decreased \$7.4 million in 2005 compared to 2004 due primarily to the factors noted above in the three month discussion, partially offset by the impact of higher interest rates on interest rate swap arrangements.



## Edgar Filing: Qumu Corp - Form 10-Q

The Company realized a gain in 2005 of \$523.5 million from the sale of its common and preferred interests in VUE to NBC Universal on June 7, 2005. In addition, the Company realized equity income from its investment in VUE in 2005 of \$22.0 million compared with \$11.3 million in 2004. Equity income in 2005 represents IAC's share in VUE's fourth quarter 2004 and first quarter 2005 results, which IAC had previously consistently recorded on a one-quarter lag, and IAC's share in VUE's results from April 1, 2005 through the date of sale.

Equity in income of unconsolidated affiliates and other increased by \$20.3 million due primarily to a \$16.7 million gain on the sale of our minority interest share in the Italian home shopping operations, a \$9.4 million increase related to the change in fair value of the derivatives that were created in the Spin-Off as noted above, an increase in foreign currency exchange gains of \$7.1 million, and a \$4.6 million increase in the equity income of unconsolidated affiliates of HSN International. Partially offsetting these increases were increased realized losses on the sale of marketable securities of \$18.4 million.

The effective tax rate from continuing operations was 40% and 33% in 2005 and 2004, respectively. The 2005 rate is higher than the federal statutory rate of 35% due principally to state taxes, non-deductible transaction expenses related to the Spin-Off, and the amortization of non-deductible non-cash compensation. The 2004 rate was lower than the federal statutory rate of 35% due principally to foreign tax credits and tax-exempt interest, partially offset by non-deductible amortization of intangibles and state taxes.

Minority interest in income of consolidated subsidiaries principally represents minority ownership of certain of Ticketmaster's international operations.

Income from discontinued operations in 2005 was \$210.3 million, principally due to the income of Expedia through August 8, 2005 and the results of EUVÍA through June 2, 2005, as well as a tax benefit of \$62.8 million related to the write-off of the investment in TV Travel Shop. Additionally, the Company recognized a gain on sale of EUVÍA of \$79.6 million, net of tax. Income from discontinued operations in 2004 was \$98.5 million, principally due to the income of Expedia and EUVÍA, partially offset by losses at TVTS.

Edgar Filing: Qumu Corp - Form 10-Q

In addition to the discussion of consolidated results, the following is a discussion of the results of each sector.

	Three months ended September 30,			Nine months ended September 30,		
	2005	2004	Growth	2005	2004	Growth
(Dollars in millions)						
<b>Revenue:</b>						
<b>Retailing:</b>						
U.S.	\$ 664.3	\$ 437.1	52%	\$ 1,829.4	\$ 1,343.0	36%
International	85.2	72.0	18%	280.7	244.6	15%
<b>Total Retailing</b>	<b>749.5</b>	<b>509.1</b>	<b>47%</b>	<b>2,110.0</b>	<b>1,587.6</b>	<b>33%</b>
<b>Services:</b>						
Ticketing	227.5	182.0	25%	696.7	579.3	20%
Lending	142.8	39.9	258%	352.2	114.1	209%
Real Estate	16.3	8.1	102%	43.0	18.2	136%
Teleservices	87.4	74.5	17%	241.6	218.9	10%
Home Services	12.2	1.9	550%	30.5	1.9	1,525%
<b>Total Services</b>	<b>486.2</b>	<b>306.3</b>	<b>59%</b>	<b>1,363.9</b>	<b>932.4</b>	<b>46%</b>
Media & Advertising	83.5	7.9	958%	104.0	20.6	404%
<b>Membership &amp; Subscriptions:</b>						
Vacations	66.1	63.6	4%	208.9	196.7	6%
Personals	66.0	49.7	33%	181.3	147.1	23%
Discounts	30.8	25.6	20%	88.5	85.9	3%
Intra-sector elimination			N/A	(0.8)	(0.6)	(26)%
<b>Total Membership &amp; Subscriptions</b>	<b>162.8</b>	<b>138.9</b>	<b>17%</b>	<b>477.9</b>	<b>429.1</b>	<b>11%</b>
Emerging Businesses	9.6	1.7	466%	19.6	1.9	910%
Intersegment elimination	(8.3)	(6.6)	(26)%	(28.6)	(18.5)	(54)%
<b>Total</b>	<b>\$ 1,483.3</b>	<b>\$ 957.3</b>	<b>55%</b>	<b>\$ 4,046.8</b>	<b>\$ 2,953.1</b>	<b>37%</b>

Edgar Filing: Qumu Corp - Form 10-Q

	Three months ended September 30,			Nine months ended September 30,		
	2005	2004	Growth	2005	2004	Growth
(Dollars in millions)						
<b>Operating Income (Loss):</b>						
<b>Retailing:</b>						
U.S.	\$ 41.1	\$ 29.9	37%	\$ 127.8	\$ 86.6	48%
International	(3.1)	(3.3)	6%	(1.2)	(2.3)	47%
<b>Total Retailing</b>	<b>38.0</b>	<b>26.6</b>	<b>43%</b>	<b>126.6</b>	<b>84.3</b>	<b>50%</b>
<b>Services:</b>						
Ticketing	42.8	25.2	70%	138.1	106.4	30%
Lending	25.3	2.6	878%	46.6	3.3	1,303%
Real Estate	(5.4)	(2.8)	(95)%	(23.9)	(8.2)	(190)%
Teleservices	4.4	5.9	(26)%	11.0	13.3	(17)%
Home Services	2.6	0.2	1,091%	7.8	0.2	3,456%
<b>Total Services</b>	<b>69.6</b>	<b>31.1</b>	<b>124%</b>	<b>179.6</b>	<b>114.9</b>	<b>56%</b>
Media & Advertising	(0.9)	(12.1)	93%	0.0	(45.0)	100%
<b>Membership &amp; Subscriptions:</b>						
Vacations	20.2	16.2	25%	66.6	51.2	30%
Personals	15.8	2.8	472%	29.7	13.4	121%
Discounts	(8.6)	(12.1)	29%	(36.6)	(36.6)	0%
<b>Total Membership &amp; Subscriptions</b>	<b>27.4</b>	<b>6.8</b>	<b>302%</b>	<b>59.7</b>	<b>28.0</b>	<b>113%</b>
Emerging Businesses	(2.4)	(0.2)	(1,244)%	(8.5)	(2.2)	(282)%
Corporate and other	(110.4)	(35.5)	(211)%	(213.3)	(115.9)	(84)%
<b>Total</b>	<b>\$ 21.3</b>	<b>\$ 16.8</b>	<b>27%</b>	<b>\$ 144.2</b>	<b>\$ 64.1</b>	<b>125%</b>

Edgar Filing: Qumu Corp - Form 10-Q

	Three months ended September 30,			Nine months ended September 30,		
	2005	2004	Growth	2005	2004	Growth
(Dollars in millions)						
<b>Operating Income Before Amortization:</b>						
<b>Retailing:</b>						
U.S.	\$ 56.7	\$ 43.1	31%	\$ 172.2	\$ 126.3	36%
International	(2.8)	(2.9)	6%	(0.2)	(1.3)	83%
<b>Total Retailing</b>	<b>54.0</b>	<b>40.2</b>	<b>34%</b>	<b>172.0</b>	<b>125.0</b>	<b>38%</b>
<b>Services:</b>						
Ticketing	49.9	32.4	54%	159.6	126.0	27%
Lending	30.6	7.7	298%	66.7	18.6	258%
Real Estate	(2.4)	(1.2)	(102)%	(13.8)	(3.4)	(306)%
Teleservices	4.4	5.9	(26)%	11.0	13.3	(17)%
Home Services	3.5	0.2	1,508%	9.1	0.2	4,099%
<b>Total Services</b>	<b>86.0</b>	<b>45.1</b>	<b>91%</b>	<b>232.6</b>	<b>154.7</b>	<b>50%</b>
Media & Advertising	9.3	(2.4)	NM	10.2	(11.4)	NM
<b>Membership &amp; Subscriptions:</b>						
Vacations	26.6	22.5	18%	85.5	70.1	22%
Personals	16.6	4.5	271%	32.5	20.4	60%
Discounts	(7.1)	(10.3)	31%	(31.7)	(30.5)	(4)%
<b>Total Membership &amp; Subscriptions</b>	<b>36.1</b>	<b>16.7</b>	<b>116%</b>	<b>86.2</b>	<b>60.0</b>	<b>44%</b>
Emerging Businesses	(2.4)		NM	(8.3)	(1.8)	(374)%
Corporate and other	(26.6)	(22.8)	(17)%	(100.9)	(70.8)	(43)%
<b>Total</b>	<b>\$ 156.3</b>	<b>\$ 76.9</b>	<b>103%</b>	<b>\$ 391.9</b>	<b>\$ 255.8</b>	<b>53%</b>
<b>Operating Income Before Amortization as a percentage of revenue</b>						
	<b>11%</b>	<b>8%</b>		<b>10%</b>	<b>9%</b>	

**Retailing**

Revenue, Operating Income Before Amortization and operating income for the Retailing sector increased in the three and nine months ended September 30, 2005 driven primarily by the inclusion of Cornerstone Brands, which was acquired on April 1, 2005. U.S. Retailing also includes HSN, which modestly improved its year-over-year revenue growth in the third quarter as compared to the second quarter of 2005. While still in the early stages, bringing Cornerstone Brands merchandise to the HSN audience is underway with a number of products now being tested on HSN and HSN.com in anticipation of increased cross-selling in 2006.

**U.S.**

*For the three months ended September 30, 2005 compared to the three months ended September 30, 2004*

U.S. revenue grew 52% to \$664.3 million and benefited from a 35% increase in units shipped, principally reflecting Cornerstone Brands as well as strong online sales growth at HSN.com. In addition, revenue benefited from a 14% increase in average price point, partially offset by a 6% increase in return rates. Excluding the results of Cornerstone Brands, HSN's revenue growth was 9% in the third quarter of 2005 compared with 2004.

Operating Income Before Amortization grew 31% to \$56.7 million, due primarily to the higher revenues noted above, partially offset by a decrease in gross profit margins of 60 basis points. Although U.S. Retailing benefited from higher gross margins at Cornerstone Brands, as the company's catalog

business typically enjoy higher gross margins than its other retailing operations, gross margins at HSN declined primarily due to increased clearance sales and markdowns as well as increased shipping and handling promotions and higher freight costs. Operating Income Before Amortization was also impacted by higher operating expenses at Cornerstone Brands as catalogs have relatively higher operating expenses. The 2004 results were also negatively impacted by a \$3.5 million impairment charge related to the closure of the warehouse facility in Salem, VA as well as the Florida hurricanes, which resulted in programming disruptions and increased costs, due to mandatory evacuations, partially offset by a reversal of a reserve of \$2.5 million as a result of the final resolution of a legal dispute.

Operating income grew 37% to \$41.1 million due primarily to the increase in Operating Income Before Amortization described above, partially offset by a \$2.1 million increase in amortization of intangibles primarily resulting from the acquisition of Cornerstone Brands and a \$0.3 million increase in amortization of non-cash compensation expense.

*For the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004*

Revenue grew 36% to \$1.8 billion largely as a result of the acquisition of Cornerstone Brands in April 2005. Excluding the results of Cornerstone Brands, revenue grew 7% as a result of increased units shipped, increased average price point and a slight decline in return rates.

Operating Income Before Amortization grew 36% to \$172.2 million, due primarily to the acquisition of Cornerstone Brands, growth in HSN revenue and an increase in gross profit margins by 60 basis points due primarily to the acquisition of Cornerstone Brands. Excluding the results of Cornerstone Brands, gross profit margins decreased 50 basis points due to the factors noted above in the three month discussion. This decrease was partially offset by the impact of a \$5.8 million favorable adjustment to certain accrued liabilities in the nine months ended September 30, 2005.

Operating income grew 48% to \$127.8 million due to the increase in Operating Income Before Amortization described above, partially offset by a \$4.4 million increase in amortization of intangibles and a \$0.3 million increase in amortization of non-cash compensation expense as noted above.

### ***International***

*For the three months ended September 30, 2005 compared to the three months ended September 30, 2004*

Revenue grew 18% to \$85.2 million in U.S. dollars due primarily to revenue growth across nearly all product lines at HSE-Germany, offset partially by higher return rates. Foreign exchange had little impact on the results during the quarter. Weakness in the Wellness product line negatively impacted the 2004 results.

Operating Income Before Amortization slightly improved to a loss of \$2.8 million and operating loss slightly improved to \$3.1 million, due to the increase of revenue noted above partially offset by lower average gross margins resulting from the sale of clearance items and increased operating expenses.

*For the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004*

Revenue grew 15% to \$280.7 million in U.S. dollars, or 11% excluding the benefit of foreign exchange, due to the revenue factors described above as well as improved overall return rates for the year-to-date period in comparison to the prior year. Operating Income Before Amortization improved to a loss of \$0.2 million and operating loss improved to \$1.2 million, respectively, due to the growth in HSE-Germany noted above, partially offset by an unfavorable arbitration settlement in the second quarter 2005 related to a former Spanish language service.

## Edgar Filing: Qumu Corp - Form 10-Q

In the first quarter of 2005, the Company entered into an agreement to sell its 48.6% ownership interest in EUVÍA. The sale closed on June 2, 2005. Accordingly, the results of operations and statement of position of EUVÍA are presented as discontinued operations for all periods presented.

### Services

Revenue, Operating Income Before Amortization and operating income for the Services sector increased in the three and nine months ended September 30, 2005, driven primarily by significant growth at Lending, particularly from closing loans in its own name along with strong growth from the Lending exchange, as well as strong domestic growth in concert and sporting event ticket sales and international expansion in our Ticketing segment. The segment formerly known as Financial Services & Real Estate is now being reported as separate segments, Lending and Real Estate.

Revenue includes \$7.0 million and \$5.5 million for the three months ended September 30, 2005 and 2004, respectively, and \$25.2 million and \$15.8 million for the nine months ended September 30, 2005 and 2004, respectively, for services provided to other IAC businesses.

In addition to the operating segment results discussed below, the Services sector includes the results of the Teleservices and Home Services operating segments as noted on pages 39 through 41. Home Services includes ServiceMagic which was acquired in September 2004. ServiceMagic acquired ImproveNet in August 2005 and these two businesses have integrated their operations.

### *Ticketing*

*For the three months ended September 30, 2005 compared to the three months ended September 30, 2004*

Revenue grew 25% to \$227.5 million driven by increases in both domestic and international revenue as total worldwide tickets sold increased by 28% to 28.9 million. Domestic revenue increased by 29% primarily due to strong concert and sporting event ticket sales compared with the prior year. International revenue increased by 16%, or 14% excluding the benefit of foreign exchange, due primarily to Ticketmaster's purchase of the remaining interest in its Australian joint venture in April 2005, strong ticket sales in Canada, and the acquisition in Finland in August 2004. These effects on international revenue were partially offset by the absence of non-recurring license income related to the Athens 2004 Summer Olympics.

Operating Income Before Amortization increased 54% to \$49.9 million reflecting the higher revenue growth described above, a favorable mix of tickets sold through its distribution channels and increased cross-selling on behalf of IAC businesses and other affiliates. These increases were partially offset by higher domestic ticket royalties as a percentage of revenue and increased costs associated with the development and support of ticketing technology. We expect to continue to experience higher operating costs in certain areas, including the development and support of ticketing technology. Domestic ticketing royalties are also expected to continue to increase as a percentage of revenue.

Operating income increased 70% to \$42.8 million reflecting the results discussed as well as a \$0.2 million decrease in amortization of intangibles.

*For the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004*

Revenue grew 20% to \$696.7 million reflecting a 21% increase in the number of worldwide tickets sold. Domestic revenue increased by 18% due primarily to the strength in the U.S. concert season and solid sporting event ticket sales in 2005. International revenue increased by 28%, or 24% excluding the benefit of foreign exchange, due to the factors described above in the three month discussion, as well as increased revenues from the acquisition in Sweden in June 2004.

## Edgar Filing: Qumu Corp - Form 10-Q

Operating Income Before Amortization and operating income increased 27% and 30% to \$159.6 million and \$138.1 million, respectively, reflecting the increase in revenue noted above, partially offset by higher domestic ticket royalties as a percentage of revenue and increased costs associated with the development and support of ticketing technology. Further, operating income was negatively impacted by a \$2.1 million increase in amortization of intangibles related to recent acquisitions.

### *Lending*

*For the three months ended September 30, 2005 compared to the three months ended September 30, 2004*

Revenue grew 258% to \$142.8 million, driven primarily by an increase in revenue from loans closed, reflecting LendingTree's strategy to close in its own name a portion of the loans sourced through the LendingTree exchange which began in December 2004 with the acquisition of Home Loan Center (now known as LendingTree Loans), and increased growth in the Lending exchange. The addition of LendingTree Loans resulted in a substantial increase in revenue per closing. Refinance mortgages performed strongly and increased as a percent of revenue from the prior year period, while revenue from purchase and home equity loans also increased. The dollar value of closed loans in 2005 increased 45% to \$9.9 billion. This includes refinance mortgages of \$5.8 billion, purchase mortgages of \$2.4 billion and home equity loans of \$1.5 billion. The dollar value of closed loans in 2004 was \$6.9 billion, including refinance mortgages of \$3.0 billion, purchase mortgages of \$2.0 billion and home equity loans of \$1.6 billion.

Operating Income Before Amortization increased 298% to \$30.6 million primarily due to growth in revenues reflecting in part higher revenue per closing as described above. Operating Income Before Amortization grew faster than revenue due primarily to lower marketing expenses as a percentage of revenue as marketing efficiency benefited from higher revenue per closing associated with loans closed in our own name, offset in part by lower gross margins as a percentage of revenue due to the higher costs of origination, funding and closing of such loans.

Operating income increased 878% to \$25.3 million due to the increase in Operating Income Before Amortization described above, as well as a \$0.1 million decrease in amortization of non-cash compensation expense, partially offset by a \$0.3 million increase in amortization of intangibles.

*For the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004*

Revenue grew 209% to \$352.2 million driven primarily by the factors described above. The dollar value of closed loans in 2005 increased 21% to \$25.5 billion. This includes refinance mortgages of \$14.2 billion, purchase mortgages of \$6.2 billion and home equity loans of \$4.3 billion. The dollar value of closed loans in 2004 was \$21.0 billion, including refinance mortgages of \$10.7 billion, purchase mortgages of \$4.8 billion and home equity loans of \$4.6 billion.

Operating Income Before Amortization increased 258% to \$66.7 million in 2005 reflecting the growth in revenues described above as well as a decrease in marketing costs as a percentage of revenue. These increases were offset in part by higher overhead costs incurred as a result of infrastructure changes resulting from the acquisition of LendingTree Loans in December 2004 and the higher costs of originating, funding and closing loans as described above.

Operating income increased to \$46.6 million in 2005 primarily due to the increase in Operating Income Before Amortization described above and a \$0.5 million decrease in amortization of non-cash compensation expense, partially offset by a \$5.3 million increase in amortization of intangibles.

**Real Estate**

*For the three months ended September 30, 2005 compared to the three months ended September 30, 2004*

Revenue from the real estate businesses grew 102% to \$16.3 million, due to a 34% increase in closings primarily driven by the acquisition of iNest in October 2004 and solid growth in the company's other real estate businesses.

Operating Income Before Amortization loss increased 102% to a loss of \$2.4 million in 2005 from a loss of \$1.2 million in 2004 due to increased on-line advertising expense and increased customer rebates as well as increases in overhead costs incurred as a result of the growth of the overall Real Estate businesses.

Operating loss increased 95% to \$5.4 million in 2005 primarily due to the increase in Operating Income Before Amortization loss described above, a \$1.4 million increase in amortization of intangibles and a \$0.1 million increase in amortization of non-cash compensation expense.

*For the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004*

Revenue grew 136% to \$43.0 million driven primarily by the acquisition of iNest and growth of the other real estate businesses as described above. Operating Income Before Amortization loss increased 306% to \$13.8 million reflecting increased marketing costs relating to a test advertising campaign for RealEstate.com, customer rebates for real estate closings and increases in overhead costs as noted above. Operating loss increased 190% to \$23.9 million in 2005 primarily due to the increase in Operating Income Before Amortization loss described above, a \$5.1 million increase in amortization of intangibles and a \$0.1 million increase in amortization of non-cash compensation expense.

**Media & Advertising**

Media & Advertising consists of the results of Ask Jeeves, Citysearch and Evite. Media & Advertising reflect the inclusion of Ask Jeeves, since its acquisition on July 19, 2005.

*For the three months ended September 30, 2005 compared to the three months ended September 30, 2004*

Revenue grew 958% to \$83.5 million, primarily due to increased revenue from the acquisition of Ask Jeeves in July 2005 as well as increased traffic at Citysearch which favorably impacted its pay-for-performance revenue.

Operating Income Before Amortization increased by \$11.6 million primarily resulting from the Ask Jeeves acquisition. Additionally, Citysearch continues to benefit from higher revenues along with cost cutting initiatives as it lowers operating costs.

Operating loss improved to \$0.9 million from an operating loss of \$12.1 million in 2004 reflecting the increase in Operating Income Before Amortization described above, partially offset by a \$0.4 million increase in amortization of intangibles. The increase in the amortization of intangibles is due to the Ask Jeeves acquisition, partially offset by certain Citysearch intangibles becoming fully amortized in 2004.

Comparing Ask Jeeves' results on a standalone basis, for the full quarter, Ask Jeeves revenue increased 15% compared to the prior year period. Ask Jeeves revenue increase was primarily driven by an increase in queries in North America and increased volume through new syndication partnerships. Site changes on the Ask Jeeves U.S. site launched in August 2005 had an adverse impact on revenue growth and operating income in the third quarter 2005, as anticipated, and is expected to continue to adversely impact revenues and margins in the near-term. Ask Jeeves was also adversely impacted by



increased selling and marketing expense incurred for a newly launched off-line marketing campaign and higher revenue share payments to third party traffic sources.

*For the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004*

Revenue grew 404% to \$104.0 million, primarily due to the factors described above in the three month discussion.

Operating Income Before Amortization improved to \$10.2 million in 2005, from a loss of \$11.4 million in 2004 primarily driven by the Ask Jeeves acquisition and increased revenue and reduced operating costs at Citysearch.

Operating income improved \$45.0 million in 2005, primarily due to the increase in Operating Income Before Amortization described above. In addition, benefiting operating income in 2005 is a \$23.0 million decrease in amortization of intangibles primarily resulting from certain Citysearch intangibles becoming fully amortized in 2004, partially offset by the increase in amortization of intangibles resulting from the Ask Jeeves acquisition, as a well as a \$0.4 million decrease in non-cash distribution and marketing expense.

Comparing Ask Jeeves' results on a standalone basis, for the full nine months, Ask Jeeves revenue increased 57% compared to the prior year period. Revenue growth was primarily driven by acquisitions made by Ask Jeeves in the second half of 2004 and the factors noted above in the three month discussion.

### **Membership & Subscriptions**

Membership & Subscriptions sector results were led by record revenue and profits at the Personals segment.

In addition to the operating segment results discussed below, the Membership & Subscriptions sector included results from the Discounts operating segment as noted on pages 39 through 41.

#### ***Vacations***

*For the three months ended September 30, 2005 compared to the three months ended September 30, 2004*

Vacations grew revenues by 4% to \$66.1 million, primarily driven by increases in membership revenue and higher average fees, partially offset by a decrease in confirmed vacations. Revenue growth at Vacations was slower than in prior quarters due to inventory constraints reflective of high-occupancy levels in the travel industry. Total active members increased 5% to 1.8 million.

Operating Income Before Amortization and operating income increased 18% and 25% to \$26.6 million and \$20.2 million, respectively, due primarily to the higher revenue noted above, and higher gross margins, partially offset by costs associated with its newly launched online travel and lifestyle membership club. Vacations confirmed online were 22% during 2005, compared with 20% in the prior year.

*For the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004*

Vacations grew revenues by 6% to \$208.9 million, driven by increased membership revenue, higher average fees and increased confirmed vacations as compared to the prior year. Operating Income Before Amortization and operating income grew by 22% and 30%, respectively, due to the factors described above.

## Edgar Filing: Qumu Corp - Form 10-Q

### **Personals**

*For the three months ended September 30, 2005 compared to the three months ended September 30, 2004*

Revenue grew 33% to \$66.0 million, reflecting a 19% increase in paid subscribers to 1.2 million and an increase in the average revenue per paid subscriber due to higher package prices implemented in early 2005. International subscribers grew 13% over the prior year period driven by expansion in several markets, most notably in Scandinavia and Latin America.

Operating Income Before Amortization increased 271% to \$16.6 million due to the increased revenue noted above, partially offset by higher customer acquisition costs relating primarily to the company's offline marketing campaign and start-up costs in connection with Chemistry.com, a newly launched premium relationship service. Results in the prior year period were impacted by charges related to the elimination of non-core businesses.

The increase in operating income of 472% to \$15.8 million reflects an increase in Operating Income Before Amortization described above and a \$0.9 million decrease in amortization of intangibles which resulted from certain intangibles becoming fully amortized in 2004 and early 2005.

*For the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004*

Revenue grew 23% to \$181.3 million, primarily driven by the factors described above as well as expansion in France and Spain. Operating Income Before Amortization increased 60% to \$32.5 million in 2005 as a result of increased revenue, partially offset by higher customer acquisition costs relating primarily to the company's off-line marketing campaign noted above. Negatively impacting the 2004 results were charges related to the elimination of certain non-core business lines.

The increase in operating income of 121% to \$29.7 million reflects an increase in Operating Income Before Amortization described above and a \$3.5 million decrease in amortization of intangibles which resulted from certain intangibles becoming fully amortized in 2004 and early 2005 and a \$0.6 million decrease in non-cash distribution and marketing expense.

### **Corporate and Other**

*For the three months ended September 30, 2005 compared to the three months ended September 30, 2004*

Corporate operating expenses for the third quarter of 2005 were \$110.4 million compared with \$35.5 million for the same period in 2004, of which \$83.8 million and \$12.7 million relate to amortization of non-cash compensation in 2005 and 2004, respectively. The increase in amortization of non-cash compensation was principally due to a \$67.0 million charge related to the treatment of vested stock options in connection with the Spin-Off. To a lesser degree, amortization of non-cash compensation expense increased due to expense related to unvested stock options and restricted stock assumed in the Ask Jeeves and Cornerstone Brands acquisitions. These increases were partially offset by a reduction in amortization of non-cash compensation expense of \$5.5 million due to the cumulative effect of a change in the Company's estimate related to the number of stock-based awards that are expected to vest. Amortization of non-cash compensation related to equity awards assumed in acquisitions is recorded over the remaining vesting period of the equity awards and therefore will decline over time as the awards vest. In addition, Corporate operating expenses include \$2.1 million related to transaction expenses incurred in 2005 associated with the Spin-Off.

*For the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004*

Corporate operating expenses in 2005 were \$213.3 million compared with \$115.9 million in 2004, of which \$112.3 million and \$45.2 million relate to amortization of non-cash compensation in 2005 and 2004, respectively. Amortization of non-cash compensation increased principally due to the factors described above in the three month discussion. In addition, Corporate operating expenses include \$16.1 million related to transaction expenses incurred in 2005 associated with the Spin-Off.

**FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES**

All IAC common stock share information has been adjusted to reflect IAC's one-for-two reverse stock split in August 2005.

As of September 30, 2005, the Company had \$1.0 billion of cash and cash equivalents and restricted cash and cash equivalents and \$2.1 billion of marketable securities on hand, including \$224.7 million in funds representing amounts equal to the face value of tickets sold by Ticketing on behalf of its clients.

Net cash (used in) provided by operating activities was approximately (\$452.2) million in 2005 and \$345.4 million in 2004. Cash used in operations in 2005 was negatively impacted by higher cash tax payments made, including \$652.8 million related to the VUE gain, increases related to loans available for sale at LendingTree Loans which were not included in the prior year period and higher uses of working capital, including higher inventory. Partially offsetting these declines were higher earnings and increased contribution to working capital from Ticketing client cash of \$78.7 million in 2005 compared with \$38.6 million in 2004, primarily due to timing of settlements with venues. There tends to be a seasonal element to the inventory balances for the Retailing sector and the Discounts segment as inventory tends to be higher in the third quarter in anticipation of the fourth quarter selling season. At September 30, 2005, inventory, net of reserves, increased \$187.7 million to \$428.6 million from \$240.9 million at December 31, 2004 due in part to the acquisition of Cornerstone Brands, which contributed \$118.0 million of the increase, as well as increases at HSN U.S., Discounts and HSE-Germany. The increases in inventory at HSN U.S. and HSE-Germany relate primarily to increased merchandise purchases as well as lower than anticipated sales during the year. The total net cash tax payments impacting operating cash flows were \$754.2 million in 2005 compared with \$48.6 million in 2004.

Cash provided by investing activities in 2005 of \$1.6 billion resulted from the proceeds generated from the sale of IAC's common and preferred interests in VUE of \$1.9 billion, net proceeds of \$381.1 million generated from the sale of marketable securities and proceeds from the sale of EUVÍA of \$183.0 million. Partially offsetting these amounts were acquisitions, net of cash acquired, of \$682.8 million and capital expenditures of \$175.7 million. Cash acquisitions in 2005 primarily relate to Cornerstone Brands. Cash used in investing activities in 2004 of \$806.2 million relates primarily to net purchases of marketable securities of \$541.1 million, acquisitions, net of cash acquired, of \$172.4 million and capital expenditures of \$120.5 million. Cash acquisitions in 2004 primarily relate to ServiceMagic.

Cash used in financing activities in 2005 of \$1.8 billion was primarily due to the purchase of treasury stock of \$1.4 billion and the redemption of IAC's convertible preferred stock of \$655.7 million, partially offset by increased borrowings under various warehouse lines of credit of \$205.6 million at LendingTree Loans, \$80.0 million of borrowings under the Liberty Bond program (see below) and proceeds from the issuance of common stock pursuant to stock option exercises of \$80.7 million. Cash used in financing activities in 2004 of \$345.6 million was primarily due to the purchase of treasury stock of \$429.5 million partially offset by proceeds from the issuance of common stock pursuant to stock option exercises of \$94.1 million.

As of September 30, 2005, the Company has \$1.8 billion in short and long-term obligations, of which \$817.3 million, consisting primarily of \$360.8 million of 1998 Senior Notes due November 15, 2005 and various warehouse lines of credit, are classified as current. The warehouse lines of credit are used by LendingTree Loans to fund mortgage and home equity loans that are held for sale. Interest rates under these lines of credit fall within a range of 30-day LIBOR plus 75-100 basis points in the ordinary course of business, but may exceed this range under certain circumstances. Under the terms of these lines of credit, LendingTree Loans is required to maintain various financial and other covenants. The balance of these warehouse lines of credit at September 30, 2005 was \$405.1 million. IAC

anticipates that the repayment of the 1998 Senior Notes on November 15, 2005 will come from current cash balances. Repayments of the warehouse lines of credit will come from the sale of loans held for sale by LendingTree Loans.

On July 19, 2005, as part of the Ask Jeeves acquisition, IAC guaranteed \$115.0 million par value of Ask Jeeves' Zero Coupon Convertible Subordinated Notes due June 1, 2008. In addition, in connection with the financing of the construction of IAC's corporate headquarters, on August 31, 2005, the New York City Industrial Development Agency (the "Agency") issued \$80 million in aggregate principal amount of New York City Industrial Development Agency Liberty Bonds (IAC/InterActiveCorp Project), Series 2005 (the "Liberty Bonds"). The Liberty Bonds pay interest at a rate of 5% per annum, payable semi-annually on March 1 and September 1 of each year, commencing on March 1, 2006, and mature on September 1, 2035. IAC is obligated to make all principal, interest and other payments in respect of the Liberty Bonds pursuant to certain security and payment arrangements between IAC and the Agency, which arrangements were entered into in connection with the closing of the Liberty Bond issuance. Liberty Bonds proceeds may only be used for certain expenditures relating to the construction of IAC's corporate headquarters and may not be used for general corporate purposes. The convertible notes and the Liberty Bonds are classified as long-term obligations on the accompanying balance sheet at September 30, 2005.

In November 2004, IAC announced that its Board of Directors authorized the repurchase of up to 40 million shares of IAC common stock. This authorization was in addition to the 11.4 million shares IAC had remaining under the two repurchase authorizations announced in March 2003 and November 2003, which initially covered a total of 40 million shares. Pursuant to the Board's previous authorizations, during the nine months ended September 30, 2005, IAC purchased 36.3 million shares of IAC common stock for aggregate consideration of \$1.4 billion. Further, IAC repurchased an additional 10.8 million shares from October 1, 2005 through November 8, 2005 for aggregate consideration of \$279.4 million. At November 8, 2005, IAC had 4.4 million shares remaining in its authorizations. Going forward, IAC may purchase shares on an opportunistic basis over an indefinite period of time, on the open market or through private transactions, depending on those factors IAC deems relevant at any particular time, including, without limitation, market conditions, share price and future outlook.

On June 7, 2005 IAC completed a transaction with NBC Universal in which it sold its interests in VUE. After paying applicable taxes on the transaction, IAC expects to net approximately \$1.0 billion in cash. As part of the consideration in this transaction, IAC received 28.3 million IAC shares into treasury valued at \$1.4 billion.

IAC anticipates that it will need to invest in the development and expansion of its overall operations. The Company may make a number of acquisitions, which could result in the reduction of its cash balance or the incurrence of debt. Furthermore, future capital expenditures are expected to be higher than current amounts over the next several years.

Future demand for our products and services may be impacted by future economic and political developments. We believe that our financial situation would enable us to absorb a significant potential downturn in business. As a result, in management's opinion, available cash, internally generated funds and available borrowings will provide sufficient capital resources to meet IAC's foreseeable needs.

**IAC'S PRINCIPLES OF FINANCIAL REPORTING**

IAC reports Operating Income Before Amortization as a supplemental measure to GAAP. This measure is one of the primary metrics by which we evaluate the performance of our businesses, on which our internal budgets are based and by which management is compensated. We believe that investors should have access to, and we are obligated to provide, the same set of tools that we use in analyzing our results. This non-GAAP measure should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results. We provide and encourage investors to examine the reconciling adjustments between the GAAP and non-GAAP measure which we discuss below.

**Definition of IAC's Non-GAAP Measure**

*Operating Income Before Amortization* is defined as operating income excluding: (1) amortization of non-cash distribution, marketing and compensation expense, (2) amortization of intangibles and goodwill impairment, if applicable, (3) pro forma adjustments for significant acquisitions, if applicable, and (4) one-time items, if applicable. We believe this measure is useful to investors because it represents the consolidated operating results from IAC's segments, taking into account depreciation, which we believe is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to IAC's income statement of certain expenses, including non-cash compensation, non-cash payments to partners, and acquisition-related accounting. IAC endeavors to compensate for the limitations of the non-GAAP measure presented by providing the comparable GAAP measure with equal or greater prominence and descriptions of the reconciling items and adjustments, including quantifying such items, to derive the non-GAAP measure.

**Non-Cash Expenses That Are Excluded From Our Non-GAAP Measure**

*Amortization of non-cash compensation* expense consists of restricted stock and options expense, which includes the expense related to modifications of options in connection with the spin-off of Expedia, unvested options assumed by IAC in its acquisitions and expense associated with grants of restricted stock units for compensation purposes. These expenses are not paid in cash and we include the related shares in our fully diluted shares outstanding.

*Amortization of non-cash distribution and marketing* expense consists mainly of the non-cash advertising secured from Universal Television as part of the transaction pursuant to which VUE was created. The non-cash advertising from Universal is available for television advertising primarily on the USA and Sci Fi cable channels without any cash cost. Ticketmaster and Match.com also recognized non-cash distribution and marketing expense related to barter arrangements, which expired in March 2004, for distribution secured from third parties, whereby advertising was provided by Ticketmaster and Match.com to a third party in return for distribution over the third party's network.

*Amortization of intangibles* is a non-cash expense relating primarily to acquisitions. At the time of an acquisition, the intangible assets of the acquired company, such as supplier contracts and customer relationships, are valued and amortized over their estimated lives. While it is likely that we will have significant intangible amortization expense as we continue to acquire companies, we believe that since intangibles represent costs incurred by the acquired company to build value prior to acquisition, they were part of transaction costs and will not be replaced with cash costs when the intangibles are fully amortized.

## RECONCILIATION OF OPERATING INCOME BEFORE AMORTIZATION

The following table is a reconciliation of Operating Income Before Amortization to operating income and net earnings available to common shareholders for the three months and nine months ended September 30, 2005 and 2004.

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
(In thousands)				
Operating Income Before Amortization	\$ 156,268	\$ 76,880	\$ 391,865	\$ 255,788
Amortization of non-cash distribution and marketing expense				(1,301)
Amortization of non-cash compensation expense	(84,775)	(13,495)	(113,778)	(47,761)
Amortization of intangibles	(50,176)	(46,605)	(133,933)	(142,636)
Operating income	21,317	16,780	144,154	64,090
Interest income	20,062	45,847	115,075	134,437
Interest expense	(11,108)	(20,456)	(51,718)	(59,083)
Gain on sale of VUE			523,487	
Equity in income of VUE		607	21,960	11,293
Equity in income (losses) of unconsolidated affiliates and other	14,263	(1,354)	33,753	13,475
Income tax expense	(7,635)	(6,215)	(311,652)	(53,609)
Minority interest in income of consolidated subsidiaries	(527)	(672)	(1,951)	(1,685)
Gain on sale of EUVÍA, net of tax			79,648	
Income from discontinued operations, net of tax	33,117	58,204	210,327	98,546
Preferred dividends	(1,412)	(3,263)	(7,938)	(9,789)
Net earnings available to common shareholders	\$ 68,077	\$ 89,478	\$ 755,145	\$ 197,675

Edgar Filing: Qumu Corp - Form 10-Q

RECONCILIATION OF NON-GAAP MEASURE

The following table reconciles Operating Income Before Amortization to operating income (loss) for the Company's reporting segments and to net earnings available to common shareholders in total (in millions, rounding differences may occur):

For the three months ended September 30, 2005:

	Operating Income Before Amortization	Amortization of non-cash items	Operating income (loss)
<b>Retailing:</b>			
U.S.	\$ 56.7	\$ (15.6)	\$ 41.1
International	(2.8)	(0.3)	(3.1)
<b>Total Retailing</b>	<b>54.0</b>	<b>(16.0)</b>	<b>38.0</b>
<b>Services:</b>			
Ticketing	49.9	(7.1)	42.8
Lending	30.6	(5.3)	25.3
Real Estate	(2.4)	(3.0)	(5.4)
Teleservices	4.4		4.4
Home Services	3.5	(0.9)	2.6
<b>Total Services</b>	<b>86.0</b>	<b>(16.3)</b>	<b>69.6</b>
Media & Advertising	9.3	(10.1)	(0.9)
<b>Membership &amp; Subscriptions:</b>			
Vacations	26.6	(6.3)	20.2
Personals	16.6	(0.9)	15.8
Discounts	(7.1)	(1.6)	(8.6)
<b>Total Membership &amp; Subscriptions</b>	<b>36.1</b>	<b>(8.7)</b>	<b>27.4</b>
Emerging Businesses	(2.4)		(2.4)
Corporate and other	(26.6)	(83.8)	(110.4)
<b>Total</b>	<b>\$ 156.3</b>	<b>\$ (135.0)</b>	<b>\$ 21.3</b>
Other income, net			23.2
Earnings from continuing operations before income taxes and minority interest			44.5
Income tax expense			(7.6)
Minority interest in income of consolidated subsidiaries			(0.5)
Earnings from continuing operations			36.4
Income from discontinued operations, net of tax			33.1
Earnings before preferred dividends			69.5
Preferred dividends			(1.4)
Net earnings available to common shareholders			\$ 68.1

Edgar Filing: Qumu Corp - Form 10-Q

For the three months ended September 30, 2004:

	Operating Income Before Amortization	Amortization of non-cash items	Operating income (loss)
<b>Retailing:</b>			
U.S.	\$ 43.1	\$ (13.2)	\$ 29.9
International	(2.9)	(0.3)	(3.3)
<b>Total Retailing</b>	<b>40.2</b>	<b>(13.6)</b>	<b>26.6</b>
<b>Services:</b>			
Ticketing	32.4	(7.2)	25.2
Lending	7.7	(5.1)	2.6
Real Estate	(1.2)	(1.6)	(2.8)
Teleservices	5.9		5.9
Home Services	0.2		0.2
<b>Total Services</b>	<b>45.1</b>	<b>(14.0)</b>	<b>31.1</b>
Media & Advertising	(2.4)	(9.8)	(12.1)
<b>Membership &amp; Subscriptions:</b>			
Vacations	22.5	(6.3)	16.2
Personals	4.5	(1.7)	2.8
Discounts	(10.3)	(1.9)	(12.1)
<b>Total Membership &amp; Subscriptions</b>	<b>16.7</b>	<b>(9.9)</b>	<b>6.8</b>
Emerging Businesses		(0.2)	(0.2)
Corporate and other	(22.8)	(12.7)	(35.5)
<b>Total</b>	<b>\$ 76.9</b>	<b>\$ (60.1)</b>	<b>\$ 16.8</b>
Other income, net			24.6
Earnings from continuing operations before income taxes and minority interest			41.4
Income tax expense			(6.2)
Minority interest in income of consolidated subsidiaries			(0.7)
Earnings from continuing operations			34.5
Income from discontinued operations, net of tax			58.2
Earnings before preferred dividends			92.7
Preferred dividends			(3.3)
Net earnings available to common shareholders			\$ 89.5



Edgar Filing: Qumu Corp - Form 10-Q

For the nine months ended September 30, 2005:

	Operating Income Before Amortization	Amortization of non-cash items	Operating income (loss)
<b>Retailing:</b>			
U.S.	\$ 172.2	\$ (44.4)	\$ 127.8
International	(0.2)	(1.0)	(1.2)
<b>Total Retailing</b>	<b>172.0</b>	<b>(45.3)</b>	<b>126.6</b>
<b>Services:</b>			
Ticketing	159.6	(21.4)	138.1
Lending	66.7	(20.1)	46.6
Real Estate	(13.8)	(10.1)	(23.9)
Teleservices	11.0		11.0
Home Services	9.1	(1.4)	7.8
<b>Total Services</b>	<b>232.6</b>	<b>(53.0)</b>	<b>179.6</b>
Media & Advertising	10.2	(10.2)	0.0
<b>Membership &amp; Subscriptions:</b>			
Vacations	85.5	(18.9)	66.6
Personals	32.5	(2.8)	29.7
Discounts	(31.7)	(4.8)	(36.6)
<b>Total Membership &amp; Subscriptions</b>	<b>86.2</b>	<b>(26.5)</b>	<b>59.7</b>
Emerging Businesses	(8.3)	(0.2)	(8.5)
Corporate and other	(100.9)	(112.3)	(213.3)
<b>Total</b>	<b>\$ 391.9</b>	<b>\$ (247.7)</b>	<b>\$ 144.2</b>
Other income, net			642.6
Earnings from continuing operations before income taxes and minority interest			786.7
Income tax expense			(311.7)
Minority interest in income of consolidated subsidiaries			(2.0)
Earnings from continuing operations			473.1
Gain on sale of EUVÍA, net of tax			79.6
Income from discontinued operations, net of tax			210.3
Earnings before preferred dividends			763.1
Preferred dividends			(7.9)
Net earnings available to common shareholders			\$ 755.1

Edgar Filing: Qumu Corp - Form 10-Q

For the nine months ended September 30, 2004:

	Operating Income Before Amortization	Amortization of non-cash items	Operating income (loss)
<b>Retailing:</b>			
U.S.	\$ 126.3	\$ (39.7)	\$ 86.6
International	(1.3)	(1.0)	(2.3)
<b>Total Retailing</b>	<b>125.0</b>	<b>(40.7)</b>	<b>84.3</b>
<b>Services:</b>			
Ticketing	126.0	(19.6)	106.4
Lending	18.6	(15.3)	3.3
Real Estate	(3.4)	(4.8)	(8.2)
Teleservices	13.3		13.3
Home Services	0.2		0.2
<b>Total Services</b>	<b>154.7</b>	<b>(39.8)</b>	<b>114.9</b>
Media & Advertising	(11.4)	(33.6)	(45.0)
<b>Membership &amp; Subscriptions:</b>			
Vacations	70.1	(18.9)	51.2
Personals	20.4	(7.0)	13.4
Discounts	(30.5)	(6.1)	(36.6)
<b>Total Membership &amp; Subscriptions</b>	<b>60.0</b>	<b>(32.0)</b>	<b>28.0</b>
Emerging Businesses	(1.8)	(0.5)	(2.2)
Corporate and other	(70.8)	(45.2)	(115.9)
<b>Total</b>	<b>\$ 255.8</b>	<b>\$ (191.7)</b>	<b>\$ 64.1</b>
Other income, net			100.1
Earnings from continuing operations before income taxes and minority interest			164.2
Income tax expense			(53.6)
Minority interest in income of consolidated subsidiaries			(1.7)
Earnings from continuing operations			108.9
Income from discontinued operations, net of tax			98.5
Earnings before preferred dividends			207.5
Preferred dividends			(9.8)
Net earnings available to common shareholders			\$ 197.7

## Edgar Filing: Qumu Corp - Form 10-Q

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The use of words such as "anticipates," "estimates," "expects," "intends," "plans," and "believes," among others, generally identify forward-looking statements. These forward-looking statements include, among others, statements relating to: IAC's future financial performance, anticipated trends and prospects in the various industries in which IAC and its businesses operate, IAC's business prospects and strategy, and anticipated financial position, liquidity and capital needs. These forward-looking statements reflect the views of IAC management regarding current expectations and projections about future events and are based on currently available information. These forward-looking statements are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict.

Actual results could differ materially from those contained in the forward-looking statements included in this report for a variety of reasons, including, among others:

changes in economic conditions generally or in any of the markets or industries in which IAC's businesses operate;

changes in senior management at IAC and/or its businesses;

adverse changes to, or interruptions in, IAC's relationships with third party distribution channels, suppliers, advertisers and other parties with whom it has significant relationships;

the rates of growth of the Internet, the e-commerce industry and broadband access, as well as the rates of online migration in the various markets and industries in which IAC's businesses operate; changes affecting IAC's ability to efficiently maintain and grow the respective market shares 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;

changes to IAC's ability to commit resources to develop or acquire new technologies, including new features and functions for the websites of its various businesses, which may be necessary to maintain or grow its businesses;

future regulatory and legislative actions and conditions affecting IAC, including:

the promulgation of new, and/or the amendment of existing, laws, rules and regulations applicable to IAC and its businesses; and

changes in the application or interpretation of existing laws, rules and regulations in the case of IAC and its businesses. 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;

consumer acceptance of new products and services offered by IAC's businesses;

weaknesses in the concert, special event and sporting event environments;

general declines in U.S. housing prices or activities in the U.S. housing market;

interest rate changes;

changes adversely affecting the ability of IAC to adequately expand the reach of its various businesses into various international markets, as well as to successfully manage risks specific to international operations, including, but not limited

to, the following:

competition from local businesses, which may better understand local consumers and their preferences, as well as have more established local brand recognition;

## Edgar Filing: Qumu Corp - Form 10-Q

developing, managing and staffing international operations and the related difficulties resulting from distance, language and cultural differences; and

fluctuations in foreign exchange rates, which could cause results of international operations, when translated, to materially differ from expectations;

the successful integration of acquired businesses, including:

the successful integration of the operations, as well as the accounting, financial controls, management information, technology, human resources and other administrative systems, of acquired businesses with IAC's existing operations and systems;

the retention of senior management and other key personnel at acquired businesses; and

the successful management of acquisition-related strain on IAC's management, operations and financial resources;

competition from other companies;

changes adversely affecting the ability of IAC and its business 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);

third party claims alleging infringement of intellectual property rights by IAC and 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

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

Certain of these factors and other factors, risks and uncertainties are discussed in IAC's filings with the SEC. Other unknown or unpredictable factors also could have a material adverse effect on IAC's business, financial condition and results of operations.

In light of these risks and uncertainties, the forward-looking statements discussed in this report may not occur. Accordingly, readers should not place undue reliance on these forward-looking statements, which only reflect the views of IAC management as of the date of this report. IAC is not under any obligation and does not intend to publicly update or review any of these forward-looking statements, whether as a result of new information, future events or otherwise, even if experience or future events make it clear that any expected results expressed or implied by those forward-looking statements will not be realized.

### **Item 3. *Quantitative and Qualitative Disclosures about Market Risk***

#### **Interest Rate Risk**

The Company's exposure to market rate risk for changes in interest rates relates primarily to the Company's short-term investment portfolio, loans held for sale and long-term debt, including the current portion thereof, and its warehouse line of credit. The Company invests its excess cash in debt securities of government agencies and high quality corporate issuers. The portfolio is reviewed on a periodic basis and adjusted in the event that the credit ratings of securities held in the portfolio deteriorates.

Based on the Company's total debt investment securities as of September 30, 2005, a 100 basis point increase or decrease in the level of interest rates would, respectively, decrease or increase the fair value of the debt securities by approximately \$28.8 million. Such potential increase or decrease are based on certain simplifying assumptions, including a constant level and rate of debt securities and an



immediate across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period. Conversely, since almost all of the Company's cash balance of approximately \$1.0 billion is invested in variable rate interest earning assets, the Company would also earn more (less) interest income due to such an increase (decrease) in interest rates.

At September 30, 2005, the Company's outstanding debt approximated \$1.8 billion, a majority of which is fixed rate obligations. If market rates decline, the Company runs the risk that the related required payments on the fixed rate debt will exceed those based on market rates. As part of its risk management strategy, the Company uses derivative instruments, including interest rate swaps, to hedge some of this interest rate exposure. The Company's intent is to offset gains and losses resulting from this exposure with losses and gains on the derivative contracts used to hedge it, thereby reducing volatility of earnings and protecting fair values of assets and liabilities. The Company's objective in managing its exposure to interest rate risk on its long-term debt is to maintain its mix of floating rate and fixed rate debt within a certain range. During 2004 and 2003, the Company entered into interest rate swap agreements related to a portion of the 2002 Senior Notes, which allow IAC to receive fixed rate amounts in exchange for making floating rate payments based on the LIBOR. As of September 30, 2005, of the \$750 million notional amount outstanding under the 2002 Senior Notes, the interest rate is fixed on \$400 million at 7% and floating on \$350 million, with the rate based on a spread over 6-month LIBOR. In July 2005, the Company unwound swap agreements with a notional amount of \$50 million and during 2004 the Company unwound swap agreements with a notional amount of \$250 million and \$100 million for nominal gains, all of which are being amortized over the remaining life of the 2002 Senior Notes. The changes in fair value of the interest rate swaps at September 30, 2005 resulted in an unrealized loss of \$5.3 million.

The majority of the Company's outstanding fixed-rate debt relates to the \$750 million outstanding under the 2002 Senior Notes, the \$360.8 million outstanding under the 1998 Senior Notes and the \$80 million outstanding under the New York City Industrial Development Agency Liberty Bonds (IAC/InterActiveCorp Project) Series 2005. Excluding the \$350 million under the 2002 Senior Notes which currently pays a variable interest rate as a result of the outstanding swap agreements noted above, a 100 basis point increase or decrease in the level of interest rates would, respectively, decrease or increase the fair value of the fixed-rate debt by approximately \$36.8 million. Such potential increase or decrease are based on certain simplifying assumptions, including a constant level and rate of fixed-rate debt for all maturities and an immediate across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period. If the LIBOR rates were to increase (decrease) by 100 basis points, then the annual interest payments on the \$350 million of variable-rate debt would have increased (decreased) by \$3.5 million. Such potential increase or decrease are based on certain simplifying assumptions, including a constant level and rate of variable-rate debt for all maturities and an immediate across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period.

LendingTree Loans is exposed to interest rate risk for loans it originates until those loans are sold in the secondary market ("loans held for sale") and as a party to interest rate lock commitments ("IRLCs") to fund mortgage loans at interest rates previously agreed upon with the borrower for specified periods of time.

LendingTree Loans hedges the changes in fair value of the loans held for sale primarily by using mortgage forward delivery contracts. These hedging relationships are designated as fair value hedges. For loans held for sale that are hedged with forward delivery contracts, the carrying value of the loans held for sale and the derivatives are adjusted for the change in fair value during the time the hedge was deemed to be highly effective. The effective portion of the derivative and the loss or gain of the hedged item attributed to the hedged risk are recognized in the accompanying statement of operations as a component of revenue and are offsetting. If it is determined that the hedging relationship is not highly effective, hedge accounting is discontinued. When hedge accounting is discontinued, the affected

loans held for sale are no longer adjusted for the changes in fair value, however, the changes in fair value of the derivative instruments are recognized in current earnings as a component of revenue. For the three and nine months ended September 30, 2005, the Company recognized a less than \$0.1 million loss and \$1.2 million loss, respectively, related to hedge ineffectiveness and \$1.3 million and \$0.7 million in gains, respectively, related to changes in the fair value of derivative instruments when hedge accounting was discontinued.

IRLCs are derivative instruments and, therefore, are required to be recorded at fair value, with changes in fair value reflected in current period earnings. To manage the interest rate risk associated with the IRLCs the Company uses derivative instruments, including mortgage forward delivery contracts. These instruments do not qualify for hedge accounting. The changes in fair value of these instruments for the three and nine months ended September 30, 2005 resulted in net gains of \$2.8 million and \$0.9 million, respectively, which have been recognized as a component of revenue in the accompanying statement of operations.

The Company formally designates and documents all hedging relationships as either fair value hedges or cash flow hedges, as applicable, and documents the objective and strategy for undertaking the hedge transaction.

### **Foreign Currency Exchange Risk**

The Company conducts business in certain foreign markets, primarily in the European Union and Canada. The Company's primary exposure to foreign currency risk relates to investments in foreign subsidiaries that transact business in a functional currency other than the U.S. Dollar, primarily the Euro, British Pound Sterling and Canadian Dollar. However, the exposure is mitigated since the Company has generally reinvested profits from international operations in order to grow the businesses.

As the Company increases its operations in international markets it becomes increasingly exposed to potentially volatile movements in currency exchange rates. The economic impact of currency exchange rate movements on the Company are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause the Company to adjust its financing and operating strategies.

As currency exchange rates change, translation of the income statements of the Company's international businesses into U.S. dollars affects year-over-year comparability of operating results. Historically, the Company has not hedged translation risks because cash flows from international operations were generally reinvested locally.

Foreign exchange gains and losses were not material to the Company's earnings in 2005 and 2004. However, the Company periodically reviews its strategy for hedging transaction risks. The Company's objective in managing its foreign exchange risk is to minimize its potential exposure to the changes that exchange rates might have on its earnings, cash flows and financial position.

During the second quarter of 2003, one of the Company's foreign subsidiaries entered into a foreign exchange forward contract with a notional amount of \$38.6 million which was used to hedge against the change in value of a liability denominated in a currency other than the subsidiary's functional currency. Foreign exchange re-measurement gains and losses related to the contract and liability are recognized each period in the statements of operations and are offsetting. The change in fair value of this foreign exchange forward contract at September 30, 2005 resulted in an unrealized loss of \$6.2 million.

### **Equity Price Risk**

The Company has a minimal investment in equity securities of publicly traded companies. These investments, as of September 30, 2005, were considered available-for-sale and included in long-term



## Edgar Filing: Qumu Corp - Form 10-Q

assets with the unrealized gain deferred as a component of shareholders' equity. It is not customary for the Company to make significant investments in equity securities as part of its marketable securities investment strategy.

In connection with the Spin-Off, derivative liabilities were created due to IAC's obligation to deliver shares of both IAC and Expedia common stock upon conversion of the Ask Jeeves subordinated convertible notes and exercise of certain IAC warrants. Derivative assets were also created due to Expedia's contractual obligation to deliver shares of Expedia common stock to IAC upon conversion by the holders of the Ask Jeeves subordinated convertible notes and upon exercise of the warrants. Both the derivative liabilities and derivative assets are marked to market each quarter, and the changes in fair values, which are based upon changes in both IAC and Expedia common stock, are recognized in current earnings as a component of other income (expense).

### **Item 4. *Controls and Procedures***

The Company monitors and evaluates on an ongoing basis its disclosure controls and internal control over financial reporting in order to improve their overall effectiveness. In the course of this evaluation, the Company modifies and refines its internal processes as conditions warrant.

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our management, including our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined by Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective in providing reasonable assurance that information we are required to disclose in our filings with the Securities and Exchange Commission under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and Forms, and include controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(d) of the Exchange Act, the Company, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, also evaluated whether any changes occurred to the Company's internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, such control. Based on that evaluation, there has been no such change during the period covered by this report.

**PART II  
OTHER INFORMATION**

**Item 1. Legal Proceedings**

In the ordinary course of business, the Company and its subsidiaries are parties to litigation involving property, personal injury, contract, and other claims. The amounts that may be recovered in such matters may be subject to insurance coverage.

Rules of the Securities and Exchange Commission require the description of material pending legal proceedings, other than ordinary, routine litigation incident to the registrant's business, and advise that proceedings ordinarily need not be described if they primarily involve damages claims for amounts (exclusive of interest and costs) not exceeding 10% of the current assets of the registrant and its subsidiaries on a consolidated basis. In the judgment of management, none of the pending litigation matters which the Company and its subsidiaries are defending, including those described below, involves or is likely to involve amounts of that magnitude. The litigation matters described below involve issues or claims that may be of particular interest to the Company's shareholders, regardless of whether any of these matters may be material to the financial position or operations of the Company based upon the standard set forth in the SEC's rules.

**Securities Class Action Litigation against IAC**

This litigation, *In re IAC/InterActiveCorp Securities Litigation*, pending in the United States District Court for the Southern District of New York and arising out of the Company's August 4, 2004 announcement of its earnings for the second quarter of 2004, is described in detail on pages 29-30 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004. The consolidated amended complaint, filed on May 20, 2005, generally alleges that the value of the Company's stock was artificially inflated by pre-announcement statements about its financial results and forecasts that were false and misleading due to the defendants' alleged failure to disclose various problems faced by the Company's travel businesses. The plaintiffs seek to represent a class of shareholders who purchased IAC common stock between March 31, 2003 and August 3, 2004. The defendants are IAC and fourteen current or former officers or directors of the Company or its former Expedia travel business. The complaint purports to assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder, as well as Sections 11 and 15 of the Securities Act of 1933, and seeks damages in an unspecified amount.

The two related shareholder derivative actions (*Garber* and *Butler*) have been consolidated with the securities class action for pre-trial purposes. The consolidated shareholder derivative complaint, filed on July 5, 2005 against IAC (as a nominal defendant) and sixteen current or former officers or directors of the Company or its former Expedia travel business, is based upon factual allegations similar to those in the securities class action and purports to assert claims for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment, violation of Section 14(a) of the Exchange Act, and contribution and indemnification. The complaint seeks an order voiding the election of the Company's current Board of Directors, as well as damages in an unspecified amount, various forms of equitable relief, restitution, and disgorgement of remuneration received by the individual defendants from the Company.

On September 15, 2005, IAC and the other defendants filed motions to dismiss both the securities class action and the shareholder derivative suits. The plaintiffs' responses to the motions are scheduled to be filed by November 15, 2005.

The Company believes that the claims in the class action and the derivative suits lack merit and will continue to defend vigorously against them.

### Consumer Class Action Litigation against Ticketmaster

**Illinois.** On November 22, 2002, a purported class action was filed in Illinois state court, challenging Ticketmaster's charges to customers for UPS ticket delivery. *See Mitchell B. Zaveduk, Individually and as the Representative of a Class of Similarly Situated Persons v. Ticketmaster et al.*, No. 02 CH 21148 (Circuit Court, Cook County). The lawsuit alleges in essence that it is unlawful for Ticketmaster not to disclose that the fee it charges to customers to have their tickets delivered by UPS contains a profit component. The complaint asserted claims for violation of the Illinois Consumer Fraud and Deceptive Business Practices Act and for unjust enrichment and sought restitution to the purported class of the difference between what Ticketmaster charged for UPS delivery and what it paid UPS for that service.

On May 20, 2003, the court granted Ticketmaster's motion to dismiss the common-law claim for unjust enrichment but declined to dismiss the claim under the Illinois statute. On July 7, 2004, the plaintiff filed an amended complaint, adding claims for breach of contract and for violation of the California Consumers' Legal Remedies Act and Section 17200 of the California Business and Professions Code. On August 13, 2004, the court granted Ticketmaster's motion to dismiss the claim under the California Consumers' Legal Remedies Act. On October 28, 2004, the court granted Ticketmaster's motion to dismiss the claim for breach of contract but declined again to dismiss the claim under the Illinois statute. On June 16, 2005, the court denied Ticketmaster's motion for summary judgment on the remaining Illinois and California statutory claims. Discovery in the case has been stayed.

**California.** On October 21, 2003, a purported representative action was filed in California state court, challenging Ticketmaster's charges to online customers for UPS ticket delivery. *See Curt Schlesinger et al. v. Ticketmaster*, No. BC304565 (Superior Court, Los Angeles County). Similar to the Illinois case, this lawsuit alleges in essence that it is unlawful for Ticketmaster not to disclose on its website that the fee it charges to online customers to have their tickets delivered by UPS contains a profit component. The complaint asserted a claim for violation of Section 17200 of the California Business and Professions Code and, like the Illinois case, sought restitution or disgorgement of the difference between the total UPS-delivery fees charged by Ticketmaster in connection with online ticket sales and the amount it paid to UPS for that service.

On January 9, 2004, the court denied Ticketmaster's motion to stay the case in favor of the earlier-filed Illinois case. On December 31, 2004, the court denied Ticketmaster's motion for summary judgment. On April 1, 2005, the court denied the plaintiffs' motion for leave to amend their complaint to include UPS-delivery fees charged in connection with ticket orders placed by telephone. Citing Proposition 64, a recently approved California ballot initiative that outlawed so-called "representative" actions brought on behalf of the general public, the court ruled that since the named plaintiffs did not order their tickets by telephone, they lacked standing to assert a claim based on telephone ticket sales. The plaintiffs were granted leave to file an amended complaint that would survive application of Proposition 64.

On August 31, 2005, the plaintiffs filed an amended class-action and representative-action complaint alleging (i) as before, that Ticketmaster's website disclosures in respect of its charges for UPS ticket delivery violate Section 17200 of the California Business and Professions Code, and (ii) for the first time, that Ticketmaster's website disclosures in respect of its ticket order-processing fees constitute false advertising in violation of Section 17500 of the California Business and Professions Code. On this latter claim, the amended complaint seeks restitution or disgorgement of the entire amount of order-processing fees charged by Ticketmaster during the applicable statute-of-limitations period.

On September 1, 2005, in light of the newly pleaded claim based upon order-processing fees, Ticketmaster removed the case to federal court pursuant to the recently enacted federal Class Action

Fairness Act. See *Curt Schlesinger et al. v. Ticketmaster*, No. CV-05-6515 (U.S. District Court, Central District of California. On October 3, 2005, the plaintiffs filed a motion to remand the case to state court, which Ticketmaster has opposed. This motion was argued on November 7, 2005, and remains pending.

The Company believes that the claims in both the Illinois and the California lawsuits lack merit and will continue to defend vigorously against them.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**Issuer Purchases of Equity Securities**

The following table sets forth purchases by the Company of its Common Stock during the quarter ended September 30, 2005:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share(1)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	(d) Maximum Number of Shares that May Yet Be Purchased Under Publicly Announced Plans or Programs(3)(4)
July 2005				25,032,954
August 2005				25,032,954
September 2005	9,870,600	\$ 25.10	9,870,600	15,162,354
<b>Total</b>	<b>9,870,600</b>	<b>\$ 25.10</b>	<b>9,870,600</b>	<b>15,162,354</b>

- (1) Reflects the weighted average price paid per share of IAC Common Stock.
- (2) Reflects repurchases made pursuant to repurchase authorizations previously announced in November 2004.
- (3) Represents shares that may yet be purchased pursuant to the November 2004 repurchase authorization, as adjusted to give effect to the reverse stock split completed on August 9, 2005. Repurchases pursuant to this authorization may be made on an opportunistic basis over an indefinite period of time, on the open market or through private transactions, depending on those factors that IAC deems relevant at any particular time, including, without limitation, market conditions, share price and future outlook.
- (4) During the period from October 1, 2005 through November 8, 2005, IAC purchased approximately 10.8 million shares of IAC Common Stock at a weighted average price per share of \$25.87. See "Part I Item 2 Management's Discussion of Financial Condition and Results of Operations Financial Position, Liquidity and Capital Resources."

**Item 4. Submission of Matters to a Vote of Security Holders**

**Annual Meeting**

On July 19, 2005, the Company's annual meeting of stockholders (the "Annual Meeting") was held. Stockholders present in person or by proxy, representing 537,023,990 shares of IAC Common Stock (entitled to one vote per share), 64,629,996 shares of IAC Class B Common Stock (entitled to ten votes per share) and 13,114,586 shares of IAC Preferred Stock (entitled to two votes per share), voted on the following matters:

## Edgar Filing: Qumu Corp - Form 10-Q

1. *Election of Directors* the stockholders elected the following ten directors of the Company, three of whom were elected by holders of IAC Common Stock only, and seven of whom were elected by holders of IAC Common Stock, IAC Class B Common Stock and IAC Preferred Stock, voting together as a single class, each to hold office until the next annual meeting of stockholders or until

Edgar Filing: Qumu Corp - Form 10-Q

their successors have been duly elected and qualified. In each case, the affirmative vote of a plurality of the total number of votes cast was required to elect each director. Stockholders eligible to vote voted as follows:

Holders of IAC Common Stock, voting as a separate class:

	Number of Votes Cast in Favor	Number of Votes Cast Against or For Which Authority Was Withheld
Donald R. Keough	533,060,987	3,963,003
Bryan Lourd	532,662,186	4,361,804
Gen. H. Norman Schwarzkopf	533,287,026	3,736,964

Holders of IAC Common Stock, IAC Class B Common Stock and IAC Preferred Stock, voting together as a single class:

	Number of Votes Cast in Favor	Number of Votes Cast Against or For Which Authority Was Withheld
Edgar Bronfman, Jr.	1,205,550,216	4,002,906
Barry Diller	1,177,878,108	31,675,014
Victor A. Kaufman	1,177,905,762	31,647,360
Marie-Josée Kravis	1,205,774,435	3,778,687
Steven Rattner	1,205,955,933	3,597,189
Alan G. Spoon	1,205,962,007	3,591,115
Diane Von Furstenberg	1,175,942,878	33,610,244

2. *The Spin-Off Proposal* the stockholders approved amendments to IAC's Certificate of Incorporation that would effect the spin-off of Expedia, Inc. (the "Spin-Off"). The affirmative vote of (i) the holders of a majority of the outstanding shares of IAC Common Stock, voting as a separate class, (ii) the holders of a majority of the outstanding shares of IAC Class B Common Stock, voting as a separate class, (iii) a majority of the voting power represented by all outstanding shares of IAC Common Stock, Class B Common Stock and Preferred Stock, voting together as a single class and (iv) a majority of the shares of IAC Common Stock actually voting, excluding shares owned or controlled by IAC management, was required to approve the Spin-Off Proposal. Stockholders eligible to vote voted as follows:

Holders of a majority of the outstanding shares of IAC Common Stock, voting as a separate class:

Number of Votes Cast in Favor	Number of Votes Cast Against	Number of Votes Abstaining	Number of Broker No Votes
491,541,057	545,549	189,130	44,748,254

Holders of a majority of the outstanding shares of IAC Class B Common Stock, voting as a separate class:

Number of Votes Cast in Favor	Number of Votes Cast Against	Number of Votes Abstaining	Number of Broker No Votes
646,299,960			

## Edgar Filing: Qumu Corp - Form 10-Q

A majority of the voting power represented by all outstanding shares of IAC Common Stock, Class B Common Stock and Preferred Stock, voting together as a single class:

Number of Votes Cast in Favor	Number of Votes Cast Against	Number of Votes Abstaining	Number of Broker No Votes
1,163,784,081	548,125	189,206	45,031,710

A majority of the shares of IAC Common Stock actually voting, excluding shares owned or controlled by IAC management:

Number of Votes Cast in Favor	Number of Votes Cast Against	Number of Votes Abstaining
358,772,827	545,549	189,130

3. *The Reverse Stock Split Proposal* the stockholders approved amendments to IAC's Certificate of Incorporation to effect a one-for-two reverse stock split of IAC Common Stock and Class B Common Stock. The affirmative vote of a majority of the voting power represented by all outstanding shares of IAC Common Stock, Class B Common Stock and Preferred Stock, voting together as a single class, was required to approve the Reverse Stock Split Proposal, which was conditioned upon the completion of the Spin-Off. Stockholders eligible to vote voted as follows:

Number of Votes Cast in Favor	Number of Votes Cast Against	Number of Votes Abstaining	Number of Broker No Votes
1,148,639,075	1,801,096	14,081,241	45,031,710

4. *The Corporate Opportunity Proposal* the stockholders approved the addition of new provisions to IAC's Certificate of Incorporation that generally provide that no IAC officer or director who is also an Expedia officer or director will be liable for breach of fiduciary duty because such individual directs a corporate opportunity to Expedia instead of IAC or does not communicate information regarding a corporate opportunity to IAC that the officer or director has directed to Expedia. The affirmative vote of a majority of the voting power represented by all outstanding shares of IAC Common Stock, Class B Common Stock and Preferred Stock, voting together as a single class, was required to approve the Corporate Opportunity Proposal, which was conditioned upon the completion of the Spin-Off. Stockholders eligible to vote voted as follows:

Number of Votes Cast in Favor	Number of Votes Cast Against	Number of Votes Abstaining	Number of Broker No Votes
1,160,975,333	3,044,431	501,648	45,031,710

5. *The Director Removal Proposal* the stockholders approved an amendment to IAC's Certificate of Incorporation that deleted the provision regarding removal of directors so that IAC's Bylaws will govern director removal procedures under Delaware law. The affirmative vote of (i) the holders of a majority of the outstanding shares of IAC Common Stock, voting as a separate class, (ii) the holders of a majority of the outstanding shares of IAC Class B Common Stock, voting as a separate class and (iii) a majority of the voting power represented by all outstanding shares of IAC Common Stock, Class B Common Stock and Preferred Stock, voting together as a single class, was required to approve the Director Removal Proposal. Stockholders eligible to vote voted as follows:

Holders of a majority of the outstanding shares of IAC Common Stock, voting as a separate class:

Number of Votes Cast in Favor	Number of Votes Cast Against	Number of Votes Abstaining	Number of Broker No Votes
473,615,551	2,355,835	16,304,350	44,748,254
	65		

## Edgar Filing: Qumu Corp - Form 10-Q

Holders of a majority of the outstanding shares of IAC Class B Common Stock, voting as a separate class:

Number of Votes Cast in Favor	Number of Votes Cast Against	Number of Votes Abstaining	Number of Broker No Votes
646,299,960			

A majority of the voting power represented by all outstanding shares of IAC Common Stock, Class B Common Stock and Preferred Stock, voting together as a single class:

Number of Votes Cast in Favor	Number of Votes Cast Against	Number of Votes Abstaining	Number of Broker No Votes
1,145,859,867	2,357,195	16,304,350	45,031,710

6. *The 2005 Stock and Annual Incentive Plan Proposal* The stockholders approved the IAC/InterActiveCorp 2005 Stock and Annual Incentive Plan. The affirmative vote of a majority of the total voting power of those shares of IAC Common Stock, Class B Common Stock and Preferred Stock present in person or represented by proxy at the Annual Meeting, voting together as a single class, was required to approve the 2005 Stock and Annual Incentive Plan Proposal. Stockholders eligible to vote voted as follows:

Number of Votes Cast in Favor	Number of Votes Cast Against	Number of Votes Abstaining	Number of Broker No Votes
1,109,095,884	55,003,991	421,537	45,031,710

7. *The Auditor Ratification Proposal* the holders of IAC Common Stock, IAC Class B Common Stock and IAC Preferred Stock, voting as a single class, also ratified the appointment of Ernst & Young LLP as the Company's independent auditors for the year ended December 31, 2005. The affirmative vote of a majority of the total voting power of those shares of IAC Common Stock, Class B Common Stock and Preferred Stock present in person or represented by proxy at the Annual Meeting, voting together as a single class, was required to approve the Auditor Ratification Proposal. Those shareholders eligible to vote voted as follows:

Number of Votes Cast in Favor	Number of Votes Cast Against	Number of Votes Abstaining
1,194,678,395	14,642,204	232,523

### Item 6. Exhibits

Exhibit No.	Description	Location
2.1	Separation Agreement, dated as of August 9, 2005, between IAC/InterActiveCorp and Expedia, Inc.	
3.1	Restated Certificate of Incorporation of IAC/InterActiveCorp.	Exhibit 3.1 to IAC's Registration Statement on Form 8-A/A, filed on August 12, 2005.
3.2	Certificate of Designations of Series B Cumulative Convertible Preferred Stock of IAC/InterActiveCorp.	Exhibit 3.2 to IAC's Registration Statement on Form 8-A/A, filed on August 12, 2005.
3.3	Amended and Restated ByLaws of IAC/InterActiveCorp.	Exhibit 99.1 to IAC's Current Report on Form 8-K, filed on September 20, 2002.



## Edgar Filing: Qumu Corp - Form 10-Q

- 4.1 Second Supplemental Indenture (relating to the Zero Coupon Subordinated Convertible Notes of Ask Jeeves, Inc.), dated as of August 9, 2005, by and among IAC/InterActiveCorp, Ask Jeeves, Inc. and the Bank of New York Trust Company, N.A., as Trustee. Exhibit 4.4 to IAC's Current Report on Form 8-K, filed on September 22, 2005.
- 4.2 In accordance with Item 601 (b) (4) (iii) (A) of Regulation S-K, certain instruments relating to long-term obligations of the Company have been omitted but will be furnished to the Commission upon request.
- 10.1 Amended and Restated Governance Agreement, among IAC/InterActiveCorp, Liberty Media Corporation and Barry Diller, dated as of August 9, 2005.
- 10.2 Amended and Restated Stockholders Agreement between Liberty Media Corporation and Barry Diller, dated as of August 9, 2005.
- 10.3 Tax Sharing Agreement between IAC/InterActiveCorp and Expedia, Inc., dated as of August 9, 2005.
- 10.4\* Employee Matters Agreement between IAC/InterActiveCorp and Expedia, Inc., dated as of August 9, 2005.
- 10.5 Transition Services Agreement between IAC/InterActiveCorp and Expedia, Inc., dated as of August 9, 2005.
- 10.7\* Form of Restricted Stock Unit Agreement for the IAC/InterActiveCorp 2005 Stock and Annual Incentive Plan
- 10.8\* Stock Option Agreement between IAC/InterActiveCorp and Barry Diller, dated as of June 7, 2005.
- 10.9\* Amendment No. 1, dated as of June 6, 2005, to Agreement dated as of February 5, 2004, between Victor Kaufman and IAC/InterActiveCorp.
- 31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act.

- 31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act.
- 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.
- 32.2 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.

\*  
Reflects management contracts and management and director compensatory arrangements.

Filed herewith.

Furnished herewith.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

November 9, 2005

IAC/INTERACTIVECORP

By: /s/ BARRY DILLER

Barry Diller  
*Chairman and Chief Executive Officer*

Signature	Title	Date
<u>/s/ BARRY DILLER</u> Barry Diller	Chairman of the Board, Chief Executive Officer and Director	November 9, 2005
<u>/s/ THOMAS J. MCINERNEY</u> Thomas J. McInerney	Executive Vice President and Chief Financial Officer	November 9, 2005
<u>/s/ MICHAEL H. SCHWERDTMAN</u> Michael H. Schwerdtman	Senior Vice President and Controller (Chief Accounting Officer)	November 9, 2005

QuickLinks

PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Item 4. Submission of Matters to a Vote of Security Holders

Item 6. Exhibits

SIGNATURES