

MONSTER WORLDWIDE INC
Form 10-Q
November 03, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005
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 000-21571

MONSTER WORLDWIDE, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

13-3906555
(IRS EMPLOYER
IDENTIFICATION NUMBER)

622 Third Avenue, New York, New York 10017

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(212) 351-7000

(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 checkmark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12 b-2). Yes No

Indicate the number of shares outstanding of each of the issuer's class of common stock as of October 31, 2005, the latest practicable date.

| Class | Outstanding on October 31, 2005 |
|----------------------|------------------------------------|
| Common Stock | 118,340,064 |
| Class B Common Stock | 4,762,000 |

MONSTER WORLDWIDE, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

| | Page No. |
|--|---------------------|
| PART I FINANCIAL INFORMATION | |
| Item 1. Financial Statements: | |
| Consolidated statements of operations | 3 |
| Consolidated balance sheets | 4 |
| Consolidated statements of cash flows | 5 |
| Notes to consolidated financial statements | 6 |
| Report of Independent Registered Public Accounting Firm | 15 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 16 |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk | 26 |
| Item 4. Controls and Procedures | 26 |
| PART II OTHER INFORMATION | |
| Item 6. Exhibits | 27 |
| Signatures | 28 |

(All other items on this report are inapplicable)

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MONSTER WORLDWIDE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|-----------------------|-------------------|-----------------------|-------------------|
| | September 30, 2005 | 2004 | September 30, 2005 | 2004 |
| Revenue | \$ 249,288 | \$ 198,619 | \$ 720,320 | \$ 541,157 |
| Salaries and related | 109,332 | 92,124 | 315,452 | 245,946 |
| Office and general | 45,931 | 42,706 | 139,175 | 116,454 |
| Marketing and promotion | 46,296 | 37,349 | 142,434 | 113,280 |
| Total operating expenses | 201,559 | 172,179 | 597,061 | 475,680 |
| Operating income | 47,729 | 26,440 | 123,259 | 65,477 |
| Interest and other, net | 715 | (227) | 1,691 | (942) |
| Income from continuing operations before income taxes | 48,444 | 26,213 | 124,950 | 64,535 |
| Income taxes | 16,955 | 8,532 | 43,990 | 21,295 |
| Losses in equity interests | (641) | | (1,217) | |
| Income from continuing operations | 30,848 | 17,681 | 79,743 | 43,240 |
| Income (loss) from discontinued operations, net of tax | (27) | 2,307 | (8,776) | 5,393 |
| Net income | \$ 30,821 | \$ 19,988 | \$ 70,967 | \$ 48,633 |
| Basic earnings (loss) per share⁽¹⁾: | | | | |
| Income from continuing operations | \$ 0.25 | \$ 0.15 | \$ 0.66 | \$ 0.37 |
| Income (loss) from discontinued operations, net of tax | | 0.02 | (0.07) | 0.05 |
| Net income | \$ 0.25 | \$ 0.17 | \$ 0.59 | \$ 0.41 |
| Diluted earnings (loss) per share: | | | | |
| Income from continuing operations | \$ 0.25 | \$ 0.15 | \$ 0.64 | \$ 0.36 |
| Income (loss) from discontinued operations, net of tax | | 0.02 | (0.07) | 0.05 |
| Net income | \$ 0.25 | \$ 0.17 | \$ 0.57 | \$ 0.41 |
| Weighted average shares outstanding: | | | | |
| Basic | 122,128 | 118,584 | 121,283 | 117,188 |
| Diluted | 124,757 | 120,351 | 123,798 | 119,392 |

(1) Basic earnings per share for the nine months ended September 30, 2004 do not add due to rounding.

See accompanying notes.

MONSTER WORLDWIDE, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

| | September 30, 2005 (unaudited) | December 31, 2004 |
|--|--------------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 313,709 | \$ 198,111 |
| Accounts receivable, net of allowance for doubtful accounts of \$16,810 and \$12,551 in 2005 and 2004, respectively | 321,243 | 318,530 |
| Prepaid and other | 53,704 | 51,826 |
| Current assets of discontinued operations | | 135,044 |
| Total current assets | 688,656 | 703,511 |
| Property and equipment, net | 84,542 | 81,415 |
| Goodwill | 589,981 | 607,753 |
| Other intangibles, net | 50,674 | 56,985 |
| Investment in unconsolidated affiliate | 48,935 | |
| Other assets | 26,447 | 17,171 |
| Non-current assets of discontinued operations | | 76,778 |
| Total assets | \$ 1,489,235 | \$ 1,543,613 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 120,125 | \$ 111,430 |
| Accrued expenses and other current liabilities | 220,179 | 196,630 |
| Deferred revenue | 248,063 | 231,382 |
| Current portion of long-term debt | 29,903 | 29,262 |
| Current liabilities of discontinued operations | | 162,039 |
| Total current liabilities | 618,270 | 730,743 |
| Long-term debt, less current portion | 14,805 | 33,975 |
| Other long-term liabilities | 37,578 | 23,259 |
| Non-current liabilities of discontinued operations | | 122 |
| Total liabilities | 670,653 | 788,099 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$.001 par value, authorized 800 shares; issued and outstanding: none | | |
| Common stock, \$.001 par value, authorized 1,500,000 shares; issued: 118,986 and 116,697 shares, respectively; outstanding: 118,059 and 115,770 shares, respectively | 119 | 117 |
| Class B common stock, \$.001 par value, authorized 39,000 shares; issued and outstanding: 4,762 shares | 5 | 5 |
| Additional paid-in capital | 1,196,932 | 1,146,708 |
| Accumulated other comprehensive income | 39,740 | 98,027 |
| Unamortized stock-based compensation | (2,441) | (2,603) |
| Accumulated deficit | (415,773) | (486,740) |
| Total stockholders' equity | 818,582 | 755,514 |
| Total liabilities and stockholders' equity | \$ 1,489,235 | \$ 1,543,613 |

See accompanying notes.

MONSTER WORLDWIDE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

| | Nine Months Ended September 30, | |
|---|------------------------------------|-------------------|
| | 2005 | 2004 |
| Cash flows provided by operating activities: | | |
| Net income | \$ 70,967 | \$ 48,633 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| (Income) loss from discontinued operations, net of tax | 8,776 | (5,393) |
| Depreciation and amortization | 27,744 | 24,806 |
| Provision for doubtful accounts | 7,976 | 3,457 |
| Tax benefit on stock option exercises and stock-based compensation | 8,714 | 1,688 |
| Non-cash compensation | 2,521 | 2,083 |
| Common stock issued for matching contribution to 401(k) plan | 2,840 | 3,676 |
| Deferred income taxes | 11,234 | 14,634 |
| Minority interests and other | 1,428 | 394 |
| Changes in assets and liabilities, net of business combinations: | | |
| Accounts receivable | (7,367) | (60,631) |
| Prepaid and other | (23,473) | 12,152 |
| Deferred revenue | 12,692 | 28,180 |
| Accounts payable, accrued liabilities and other | 56,212 | 17,970 |
| Net cash used for operating activities of discontinued operations | (19,643) | (43,206) |
| Total adjustments | 89,654 | (190) |
| Net cash provided by operating activities | 160,621 | 48,443 |
| Cash flows used for investing activities: | | |
| Capital expenditures | (24,096) | (13,826) |
| Payments for acquisitions and intangible assets, net of cash acquired | (51,752) | (117,926) |
| Investment in unconsolidated affiliate | (50,137) | |
| Sale of long-term investment | 2,003 | |
| Net proceeds from sales of businesses | 49,091 | |
| Net cash used for investing activities of discontinued operations | (710) | (8,870) |
| Net cash used for investing activities | (75,601) | (140,622) |
| Cash flows provided by financing activities: | | |
| Payments on capital lease obligations | (2,137) | (709) |
| Proceeds from the issuance of common stock | | 55,673 |
| Proceeds from the exercise of employee stock options | 37,709 | 11,743 |
| Repurchase of common stock | (1,398) | |
| Net cash provided by financing activities | 34,174 | 66,707 |
| Effect of exchange rate changes on cash and cash equivalents | (3,596) | 429 |
| Net increase (decrease) in cash and cash equivalents | 115,598 | (25,043) |
| Cash and cash equivalents, beginning of period | 198,111 | 142,255 |
| Cash and cash equivalents, end of period | \$ 313,709 | \$ 117,212 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid (received) during the period for: | | |
| Interest | \$ 2,575 | \$ 816 |
| Income taxes | \$ 2,463 | \$ (1,685) |
| Non-cash financing and investing activities: | | |
| Common stock issued in connection with business combinations | \$ | \$ 55,852 |
| Liabilities created in connection with business combinations | \$ 10,236 | \$ 52,762 |

See accompanying notes.

MONSTER WORLDWIDE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)
(unaudited)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

Monster Worldwide, Inc. (the Company) has continuing operations that consist of two operating segments: Monster and Advertising & Communications. Revenue in the Company's Monster segment is primarily earned from job postings placed on the Company's career websites; licensed access to the Company's resume database; and the display of advertising on the Company's online properties. Revenue in the Company's Advertising & Communications division is primarily earned from selling and placing recruitment advertising, in print and online media, resume screening services and other recruitment related products. These services are provided to customers in a variety of industries throughout North America, Europe and the Asia-Pacific region.

Basis of Presentation

The consolidated interim financial statements included herein are unaudited and have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. The consolidated interim financial statements include the accounts of the Company and all of its wholly-owned and majority-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

These statements reflect all normal recurring adjustments that, in the opinion of management, are necessary for fair presentation of the information contained herein. These consolidated interim financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. The Company adheres to the same accounting policies in preparation of interim financial statements. As permitted under generally accepted accounting principles, interim accounting for certain expenses, including income taxes are based on full year assumptions. Such amounts are expensed in full in the year incurred. For interim financial reporting purposes, income taxes are recorded based upon estimated annual income tax rates.

For the period January 1, 2004 through September 30, 2005, the Company completed five business combinations (see Note 3). Although none of the acquired businesses was considered to be a significant subsidiary, either individually or in the aggregate, they do affect the comparability of results from period to period.

2. EARNINGS PER SHARE AND STOCK-BASED COMPENSATION

Earnings Per Share

Basic earnings per share does not include the effects of potentially dilutive stock options and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects, in periods in which they have a dilutive effect, commitments to issue common stock and common stock issuable upon exercise of stock options for periods in which the options' exercise price is lower than the Company's average share price for the period.

A reconciliation of shares used in calculating basic and diluted earnings per common and Class B common share follows. Certain stock options and stock issuable under employee compensation plans were excluded

from the computation of earnings per share due to their anti-dilutive effect. The weighted average number of such common stock equivalents is approximately 5,214 and 11,979 for the three months ended September 30, 2005 and 2004, respectively, and 6,218 and 8,893 for the nine months ended September 30, 2005 and 2004, respectively.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|---------|------------------------------------|---------|
| | 2005 | 2004 | 2005 | 2004 |
| Basic weighted average shares outstanding | 122,128 | 118,584 | 121,283 | 117,188 |
| Effect of common stock equivalents - stock options and stock issuable under employee compensation plans | 2,629 | 1,767 | 2,515 | 2,204 |
| Diluted weighted average shares outstanding | 124,757 | 120,351 | 123,798 | 119,392 |

Stock-Based Compensation

The Company's financial statements are presented in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. Under APB 25, generally, no compensation expense is recognized in connection with the awarding of stock option grants to employees provided that, as of the grant date, all terms associated with the award are fixed and the quoted market price of the stock is equal to or less than the amount an employee must pay to acquire the stock as defined. As the Company has only issued fixed term employee stock option grants at or above the quoted market price on the date of the grant, there has been no compensation expense associated with stock options recognized in the accompanying financial statements. The Company adopted the disclosure only provisions of SFAS 123, *Accounting for Stock-Based Compensation*, which requires certain financial statement disclosures, including pro forma operating results had the Company prepared its consolidated financial statements in accordance with the fair value based method of accounting for stock-based compensation.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no restrictions and are fully transferable and negotiable in a free trading market. Black-Scholes does not consider the employment, transfer or vesting restrictions that are inherent in the Company's employee options. Use of an option valuation model, as required by SFAS 123, includes highly subjective assumptions based on long-term predictions, including the expected stock price volatility and average life of each option grant. Because the Company's employee options have characteristics significantly different from those of freely traded options, and because changes in the subjective input assumptions can materially affect the Company's estimate of the fair value of those options, in the Company's opinion, the existing valuation models, including Black-Scholes, are not reliable single measures and may misstate the fair value of the Company's employee options.

The pro forma effects of stock-based compensation on net income and net income per share have been estimated at the date of grant using the Black-Scholes option-pricing model based on the following weighted average assumptions:

| | Three Month Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------|------------------------------------|--------|------------------------------------|--------|
| | 2005 | 2004 | 2005 | 2004 |
| Risk-free interest rate | 4.2 % | 4.1 % | 4.2 % | 4.1 % |
| Volatility | 41.0 % | 48.8 % | 41.0 % | 48.8 % |
| Expected life (years) | 4.1 | 5.0 | 4.1 | 5.0 |

Edgar Filing: MONSTER WORLDWIDE INC - Form 10-Q

For purposes of pro forma disclosures, the estimated fair value of the options is assumed to be expensed over the options vesting periods. The pro forma effects of recognizing compensation expense under the fair value method on the Company's operating results and per share data are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|-----------|
| | 2005 | 2004 | 2005 | 2004 |
| Net income as reported | \$ 30,821 | \$ 19,988 | \$ 70,967 | \$ 48,633 |
| Add: Stock based employee compensation expense included in reported net income, net of tax | 351 | 479 | 1,327 | 1,354 |
| Deduct: Compensation expense determined under fair value based method for all awards, net of tax | (4,767) | (8,117) | (60,441) | (23,422) |
| Pro forma net income | \$ 26,405 | \$ 12,350 | \$ 11,853 | \$ 26,565 |
| Basic earnings per share: | | | | |
| Net income - as reported | \$ 0.25 | \$ 0.17 | \$ 0.59 | \$ 0.41 |
| Net income - pro forma | 0.22 | 0.10 | 0.10 | 0.23 |
| Diluted earnings per share: | | | | |
| Net income - as reported | \$ 0.25 | \$ 0.17 | \$ 0.57 | \$ 0.41 |
| Net income - pro forma | 0.21 | 0.10 | 0.10 | 0.22 |

On December 28, 2004, the Company granted approximately 2,800,000 options to executives and employees. Such options vested over the five-month period ending on May 31, 2005 and the vested options generally become exercisable in four annual installments commencing December 28, 2005. For the nine months ended September 30, 2005, the Company recognized approximately \$22,229 of pro forma compensation expense, net of tax, related to this grant.

On February 10, 2005 and May 4, 2005, the compensation committee of the Company's board of directors approved the acceleration of option vesting terms for approximately 134,000 and 2,600,000 employee stock options, respectively. Exercise prices of the affected stock options were at or above the Company's closing stock price on such dates. As a result of the accelerated vesting terms, approximately \$940 and \$20,500, respectively, have been included in pro forma compensation expense, net of tax, for the nine months ended September 30, 2005. The decision to accelerate vesting of these options was made primarily to avoid recognizing compensation expense in the consolidated statement of operations in the Company's future financial statements upon the effectiveness of SFAS 123R.

As a result of these accelerations, it is estimated that approximately \$24.0 million of pre-tax compensation expense will be avoided upon implementation of SFAS 123R on January 1, 2006.

Share Based Payments

In December 2004 the Financial Accounting Standards Board (FASB) issued Statement 123R (Revised 2004), *Share Based Payment*, which requires all companies to measure compensation cost for all share-based payments, including employee stock options, at fair value. The Company is required to adopt the statement beginning with the first quarter of 2006. Upon adoption, the Company will be required to recognize compensation on all share-based grants made on or after January 1, 2006, and for the unvested portion of share-based grants made prior to January 1, 2006. Restatement of previously issued statements is permitted, but not required.

As a result of SFAS 123R, the Company will be required to expense the fair value of our stock option grants rather than disclose the impact on its consolidated statement of operations within the Company's footnotes, as is current practice. Based on stock options currently outstanding and utilizing the Company's current Black Scholes valuation model, share based payment expense is anticipated to be approximately \$7,300 (\$4,500, net of tax), in the year ending December 31, 2006.

3. BUSINESS COMBINATIONS

Acquisitions

The following table summarizes the Company's business combinations completed from January 1, 2004 through September 30, 2005:

| Acquired Business | Acquisition Date | Business Segment/Region |
|--|-------------------|-------------------------|
| Military Advantage, Inc. | March 1, 2004 | Monster, North America |
| jobpilot GmbH | April 22, 2004 | Monster, Europe |
| Tickle Inc. | May 21, 2004 | Monster, North America |
| WebNeuron Services Limited (JobsAhead.com) | June 18, 2004 | Monster, Asia/Pacific |
| Emailjob.com SAS | February 11, 2005 | Monster, Europe |

In February 2005, the Company's Monster division purchased Emailjob.com SAS, a leading online recruiter in France. The acquisition of Emailjob.com SAS was made to help establish Monster's leadership position in France and strengthen the Company's position in a key European market. Under the terms of the purchase agreement, the consideration for this acquisition was approximately \$26,000 in cash, of which \$23,000 was paid on February 11, 2005. The remaining \$3,000 is payable over the twelve month period following the acquisition. As of September 30, 2005, the Company has preliminarily recorded \$21,229 of goodwill and assigned approximately \$4,700 to intangible assets. None of the goodwill recorded in connection with the acquisition is deductible for tax purposes.

During the year ended December 31, 2004, the Company's Monster division acquired WebNeuron Services Limited (JobsAhead), a leading job search website in India. The acquisition of JobsAhead was made to expand Monster's market share and geographic reach in the Asia-Pacific region. Consideration for the acquisition included \$4,483 of net cash paid and 147,156 shares of the Company's common stock. None of the goodwill recorded in connection with the acquisition is deductible for tax purposes.

In May 2004, the Company's Monster division purchased Tickle Inc. (Tickle), a market leader in online career assessment testing. Initial consideration for this acquisition included \$24,454 of net cash paid, 1,000,000 shares of the Company's common stock and minimum cash payments of \$13,332 per year, over a three-year period following the acquisition date. Future minimum cash payments have been recorded as long-term debt, at their present values, in the accompanying consolidated balance sheet. Additional purchase price commitments are possible, subject to Tickle achieving certain agreed-upon financial thresholds for each of the years ending December 31, 2005 and 2006. Such financial thresholds were exceeded in 2004 and therefore an additional \$798 was recorded in current portion of long-term debt and goodwill as of December 31, 2004. None of the goodwill recorded in connection with the acquisition is deductible for tax purposes.

In April 2004, the Company's Monster division purchased jobpilot GmbH (jobpilot), a leading European online career portal, from Adecco S.A. The acquisition of jobpilot was made to help establish Monster as one of the leaders in key European markets, particularly Germany. Consideration for the acquisition included \$60,552 net cash paid and 1,000,000 shares of common stock. The Company has incurred charges to integrate and restructure jobpilot's operations and therefore has recorded additional costs to goodwill since the acquisition date, as described in Accrued Integration and Restructuring Costs below. Goodwill recorded in connection with the jobpilot acquisition is fully deductible for tax purposes.

In March 2004, the Company's Monster division purchased Military Advantage, Inc. as a complementary business to Monster's government product offerings. Military Advantage, Inc. offers its members access to information about benefits and career opportunities in the military. Consideration for the acquisition included \$23,418 of net cash paid and \$7,500 guaranteed cash payments in each of 2005 and 2006, recorded at their present values in the accompanying consolidated balance sheet. None of the goodwill recorded in connection with the acquisition is deductible for tax purposes.

None of the business combinations made by the Company in 2005 or 2004 were considered to be significant subsidiaries, either individually or in the aggregate.

Unaudited Pro Forma Results

The following unaudited pro forma financial information presents the combined results of operations of the Company and its purchase acquisitions as if they had occurred as of the beginning of the periods presented. The unaudited pro forma financial information is not necessarily indicative of what the Company's results of operations would have been had the acquisitions been completed at the beginning of each period. The unaudited pro forma financial information does not attempt to project the future results of operations of the combined company.

| | Three Months Ended September 30, 2004 | Nine Months Ended September 30, 2005 | 2004 |
|--|--|---|-------------|
| Revenue | \$ 201,636 | \$ 721,964 | \$ 579,918 |
| Income from continuing operations | 18,405 | 80,072 | 48,136 |
| Net income | 20,713 | 71,296 | 53,529 |
| Pro-forma basic earnings per share: | | | |
| Income from continuing operations | \$ 0.15 | \$ 0.66 | \$ 0.40 |
| Net income | \$ 0.17 | \$ 0.59 | \$ 0.45 |
| Pro-forma diluted earnings per share: | | | |
| Income from continuing operations | \$ 0.15 | \$ 0.65 | \$ 0.40 |
| Net income | \$ 0.17 | \$ 0.58 | \$ 0.44 |

The unaudited pro forma financial information above reflects the following:

- a. Interest expense, net of tax benefits, of approximately \$17 for the three months ended September 30, 2004. For the nine months ended September 30, 2005 and 2004, interest expense, net of tax benefits was \$8 and \$430, respectively. Incremental interest expense has been recorded for guaranteed deferred purchase price payable for acquired companies. The decrease in interest income relates to interest foregone on the aggregate cash paid for the acquisitions.
- b. Additional depreciation and amortization expense, net of tax benefits, of \$301 for the three months ended September 30, 2004. For the nine months ended September 30, 2004, additional depreciation and amortization expense was \$3,024. Additional depreciation and amortization relate to the estimated fair value of identifiable intangible assets and proprietary software from the purchase price allocation. Identifiable intangible assets are being amortized over their estimated useful lives over a range of 1 to 10 years and proprietary software is being depreciated over its estimated useful life of 6 years.
- c. Additional weighted average shares outstanding of 2,147 for the three months ended September 30, 2004. Incremental shares reflect the amounts issued upon acquisition as being outstanding from the beginning of the periods presented.

Accrued Integration and Restructuring Costs

The Company has formulated integration and restructuring plans to eliminate redundant facilities, personnel and duplicate assets in connection with its business combinations. These costs were recognized as liabilities assumed in connection with the Company's business combinations. Accordingly, these costs are considered part of the purchase price of the business combinations and have been recorded as increases to goodwill. Amounts charged to goodwill for the nine months ended September 30, 2005 primarily relate to the Company's acquisitions of Emailjob.com and jobpilot.

Edgar Filing: MONSTER WORLDWIDE INC - Form 10-Q

The components of the accrued integration and restructuring costs, reported as a component of accrued expenses and other current liabilities, are as follows:

| Nine Months Ended September 30, 2005 | Liability at 12/31/04 | Charged to Goodwill | Change in Estimate | Utilization | Liability at 9/30/05 |
|---|--------------------------|------------------------|-----------------------|--------------------|-------------------------|
| Assumed lease obligations and office consolidation costs ^(a) | \$ 8,247 | \$ 1,465 | \$ 460 | \$ (3,076) | \$ 7,096 |
| Employee terminations and other ^(b) | 1,245 | 311 | | (1,131) | 425 |
| Total | \$ 9,492 | \$ 1,776 | \$ 460 | \$ (4,207) | \$ 7,521 |

a) Accrued liabilities for assumed lease obligations represent the present value of lease payments (net of expected sublease income) for office locations of acquired companies that are either under utilized prior to the acquisition date or closed by the Company in connection with acquisition-related restructuring plans. Office consolidation costs represent charges to terminate contracts in connection with software and computer systems, other contractual arrangements with third parties and above market lease costs.

b) Costs associated with employee severance, benefits and relocation and other miscellaneous costs associated with the integration of acquired businesses.

Changes in the Company's approved restructuring plans or costs related to new restructuring initiatives may be recorded in goodwill for up to one year following the acquisition date and must be recorded in the Company's operating results thereafter. Reductions to integration and restructuring reserves established in connection with purchase business combinations are recorded as a reduction to goodwill. Due to changes in estimates and assumptions, the Company provided additional real estate provisions of \$460 during the nine months ended September 30, 2005. The amount has been recorded in operating expenses in the 2005 periods.

4. INVESTMENT IN UNCONSOLIDATED AFFILIATE

In February 2005, the Company acquired a 40% interest in ChinaHR.com Holdings Ltd. (ChinaHR) for consideration of \$50,000 in cash. ChinaHR is a leading recruitment website in China and provides online recruiting, campus recruiting and other human resource solutions. As a result of the transaction, the Company has the right to occupy three of seven seats on ChinaHR's Board of Directors. In addition, the Company also has certain rights and obligations, the amount and likelihood of which are not currently determinable, to acquire a 51% or more interest in ChinaHR in the event of an initial public offering or February 1, 2008, whichever comes first.

The Company accounts for its investment in ChinaHR under the equity method. As of September 30, 2005, the carrying value of the investment was \$48,935 and is recorded on the consolidated balance sheet as an investment in unconsolidated affiliate. In addition, the Company accounts for its share in the earnings and losses of ChinaHR as an equity interest in the consolidated statements of operations. For the three and nine months ended September 30, 2005, the Company recorded a loss in equity interest of \$641 and \$1,217, respectively, which is 40% of ChinaHR's results from the date the Company acquired its equity interest.

5. BUSINESS REORGANIZATION AND OTHER SPECIAL CHARGES

In the second quarter of 2002, the Company announced a reorganization initiative to streamline its operations, lower its cost structure, integrate businesses previously acquired and improve its return on capital. The reorganization program included workforce reduction, consolidation of excess facilities, restructuring of certain business functions and other special charges, primarily for exiting activities that were no longer part of the Company's strategic plan. In the fourth quarter of 2002, the Company announced further reorganization efforts related to the spin-off of Hudson Highland Group, Inc. (HH Group). The additional charge consisted of further workforce reduction, office consolidation costs,

related asset write-offs, professional fees and other special charges. Substantially all of these charges were recorded in the fourth quarter of 2002 and first quarter of 2003.

| | Liability at Dec. 31, 2004 | Change in Estimate | Utilization | Liability at Sep. 30, 2005 |
|------------------------------------|-------------------------------|-----------------------|-------------|-------------------------------|
| Consolidation of excess facilities | \$ 21,177 | \$ (460) | \$ (3,362) | \$ 17,355 |
| Other costs | 418 | | (315) | 103 |
| Total | \$ 21,595 | \$ (460) | \$ (3,677) | \$ 17,458 |

Consolidation of excess facilities includes property consolidation and abandonment costs (including related professional fees) and disposal of property and equipment related to such properties. Property and equipment disposed of included leasehold improvements, computer equipment, software, and furniture and fixtures. Other costs primarily relate to workforce reduction and professional fees. Due to changes in estimates and assumptions, the Company reversed excess real estate provisions during the nine months ended September 30, 2005. As a result, \$460 has been recorded as a reduction to operating expenses in the 2005 period.

6. COMPREHENSIVE INCOME

The Company's comprehensive income is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|-----------|
| | 2005 | 2004 | 2005 | 2004 |
| Net income | \$ 30,821 | \$ 19,988 | \$ 70,967 | \$ 48,633 |
| Foreign currency translation adjustment and other | (527) | 8,609 | (58,287) | 5,441 |
| Comprehensive income | \$ 30,294 | \$ 28,597 | \$ 12,680 | \$ 54,074 |

7. DISCONTINUED OPERATIONS

During the nine months ended September 30, 2005, the Company disposed of the following businesses that collectively comprised substantially all of its Directional Marketing operating segment. The results of operations of these businesses and the associated disposal costs are reflected as discontinued operations in the consolidated statements of operations for the three and nine months ended September 30, 2005 and 2004:

- On June 1, 2005, the Company sold substantially all of its Directional Marketing division to a private equity firm for net cash consideration of \$49,586 (\$80 million purchase price less working capital and other adjustments and \$2,500 of cash placed in escrow for an 18 month period following the disposition date) and a \$7,000, 3% promissory note due to the Company after 7 years. The sale included the Company's Yellow Pages business in North America and Japan along with its online relocation business. The Company recognized a loss on sale of these businesses of \$10,729 (\$1,803 net of tax benefits) in the second quarter of 2005. In the third quarter of 2005, the Company returned cash consideration of \$657 upon final determination of working capital sold in connection with the disposition. The sale of the Directional Marketing business did not include the Company's Directional Marketing operations in the United Kingdom. The Company's European Advertising & Communications management will continue to operate that business, and accordingly, those results have been reclassified to our Advertising & Communications operating segment.
- On May 2, 2005, the Company sold its interests in TMP Direct, an order fulfillment business, formerly part of the Company's Directional Marketing segment. The business was purchased by GECKO Inc., an entity owned 65% by George Eisele, a director of Monster Worldwide, for \$2,500 cash, paid at closing plus an amount equal to 50% of TMP Direct's working capital as of the closing.

Edgar Filing: MONSTER WORLDWIDE INC - Form 10-Q

date payable on May 2, 2006. George Eisele and another individual shareholder of GECKO Inc. personally guaranteed the May 2, 2006 payment obligation of GECKO Inc. The sale was not considered material and did not include a significant amount of assets. The Company recognized a pre-tax and after tax loss on sale of this business of \$551 in the second quarter of 2005.

During the year ended December 31, 2004, the Company disposed of the following businesses, which are reflected as discontinued operations in the consolidated statements of operations for the three and nine months ended September 30, 2004:

- In December 2004, the Company sold and disposed of certain Advertising & Communications businesses in Continental Europe, in order to focus more fully on our Monster business. None of these dispositions were considered material or included a significant amount of assets. The Company recognized a loss on sale of these businesses of \$7,055 (\$6,234 net of tax) in the fourth quarter of 2004.
- On October 5, 2004, the Company completed the sale of our wholly owned subsidiary US Motivation, Inc., formerly part of our Directional Marketing segment, to General Yellow Pages Consultants, Inc. d/b/a The Marquette Group for \$10,000 cash, subject to a post-closing adjustment. The Company recognized a pre-tax and after-tax gain on the sale of US Motivation of \$7,413 in the fourth quarter of 2004.

The following amounts related to our dispositions in 2005 and 2004, as well as residual costs related to our disposition of HH Group in 2003, have been segregated from continuing operations and are reflected as discontinued operations in each period's consolidated statement of operations:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|--|-----------------|---------------------------------------|-----------------|
| | 2005 | 2004 | 2005 | 2004 |
| Revenue | \$ | \$ 31,030 | \$ 23,402 | \$ 85,608 |
| Income (loss) before income taxes | \$ (42) | \$ 4,827 | \$ (10,381) | \$ 10,595 |
| Income tax expense (benefit) | (15) | 2,520 | (3,959) | 5,202 |
| Net income (loss) of discontinued operations | (27) | 2,307 | (6,422) | 5,393 |
| Pre-tax loss on sale of discontinued businesses | | | (11,280) | |
| Income tax benefit | | | (8,926) | |
| Loss on sale of businesses, net of tax | | | (2,354) | |
| Income (loss) from discontinued operations, net of tax | \$ (27) | \$ 2,307 | \$ (8,776) | \$ 5,393 |

8. SEGMENT AND GEOGRAPHIC DATA

The Company conducts business in two operating segments: Monster and Advertising & Communications. Corporate operating expenses are not allocated to the Company's operating segments. The Company's Advertising & Communications division recognizes a commission on the sale of certain Monster products. Revenue recognized by the Advertising & Communications segment for such sales was \$6,750 and \$3,107 for the three months ended September 30, 2005 and 2004, respectively and \$15,364 and \$7,935 for the nine months ended September 30, 2005 and 2004, respectively.

Edgar Filing: MONSTER WORLDWIDE INC - Form 10-Q

The following tables present the Company's operations by business segment and by geographic region, for the three and nine months ended September 30, 2005 and 2004.

| Revenue | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------------|-------------------------------------|-------------------|------------------------------------|-------------------|
| | 2005 | 2004 | 2005 | 2004 |
| Monster | \$ 206,834 | \$ 157,679 | \$ 594,459 | \$ 421,745 |
| Advertising & Communications | 42,454 | 40,940 | 125,861 | 119,412 |
| Total revenue | \$ 249,288 | \$ 198,619 | \$ 720,320 | \$ 541,157 |

| Operating Income (Loss) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------|-------------------------------------|------------------|------------------------------------|------------------|
| | 2005 | 2004 | 2005 | 2004 |
| Monster | \$ 54,585 | \$ 34,642 | \$ 147,277 | \$ 87,876 |
| Advertising & Communications | 4,447 | 1,646 | 7,649 | 4,292 |
| Corporate | (11,303) | (9,848) | (31,667) | (26,691) |
| Total operating income | \$ 47,729 | \$ 26,440 | \$ 123,259 | \$ 65,477 |

| Revenue by Geographic Region | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------------|-------------------------------------|-------------------|------------------------------------|-------------------|
| | 2005 | 2004 | 2005 | 2004 |
| United States | \$ 179,920 | \$ 144,524 | \$ 513,723 | \$ 396,172 |
| United Kingdom | 24,101 | 25,048 | 74,739 | 69,708 |
| Continental Europe | 33,983 | 21,858 | 101,924 | 55,568 |
| Other ^(a) | 11,284 | 7,189 | 29,934 | 19,709 |
| Total | \$ 249,288 | \$ 198,619 | \$ 720,320 | \$ 541,157 |

The following table reconciles each reportable segment's assets to total assets reported on the Company's consolidated balance sheets as of September 30, 2005 and December 31, 2004:

| | September 30, 2005 | December 31, 2004 |
|-----------------------------------|-----------------------|----------------------|
| Total Assets | | |
| Monster | \$ 816,902 | \$ 747,066 |
| Advertising & Communications | 300,781 | 364,014 |
| Corporate | 324,909 | 161,598 |
| Shared Assets ^(b) | 46,643 | 59,113 |
| Assets of discontinued operations | | 211,822 |
| Total | \$ 1,489,235 | \$ 1,543,613 |

(a) Includes Canada and the Asia-Pacific region.

(b) Shared assets represent assets that provide economic benefit to all of the Company's operating segments. Shared assets are not allocated to operating segments for internal reporting or decision-making purposes.

9. SUBSEQUENT EVENT

In October 2005, the Company expanded its global presence with the acquisition of JobKorea (www.jobkorea.co.kr), an online recruitment web site in South Korea. JobKorea serves more than three million registered users and utilizes an advanced online commerce system and posting model which emphasizes ease and self service. The aggregate cash purchase price was \$94,000, net of cash and short-term investments acquired. The acquisition of JobKorea gives the Company a leading presence in one of Asia's largest online markets.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Monster Worldwide, Inc.
New York, New York

We have reviewed the consolidated balance sheet of Monster Worldwide, Inc. as of September 30, 2005, and the related consolidated statements of operations for the three-month and nine-month periods ended September 30, 2005 and 2004, and cash flows for the nine-month periods ended September 30, 2005 and 2004 included in the accompanying Securities and Exchange Commission Form 10-Q for the period ended September 30, 2005. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board, the consolidated balance sheet of Monster Worldwide, Inc. as of December 31, 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 18, 2005, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2004 is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ BDO SEIDMAN, LLP
BDO Seidman, LLP

New York, New York
October 26, 2005

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We make forward-looking statements in this report and in other reports and proxy statements that we file with the SEC. In addition, our senior management might make forward-looking statements. Broadly speaking, forward-looking statements include:

- projections of our revenues, income, earnings per share, capital expenditures, capital structure or other financial items;
- descriptions of plans or objectives of our management for future operations, products or services, including pending acquisitions and dispositions;
- forecasts of our future economic performance; and
- descriptions of assumptions underlying or relating to the foregoing.

Forward-looking statements discuss matters that are not historical facts. Because they discuss future events or conditions, forward-looking statements often include words such as anticipate, believe, estimate, expect, intend, plan, project, target, can, could, may, similar expressions. Do not unduly rely on forward-looking statements. They give our expectations and are not guarantees. Forward-looking statements speak as of only the date they are made, and we might not update them to reflect changes that occur after the date they are made.

There are many factors many beyond our control that could cause results to differ significantly from our expectations. Some of these factors are described in Item 1. Business Risk Factors of our annual report on Form 10-K for the year ended December 31, 2004.

Overview

Founded in 1967, Monster Worldwide, Inc. is the parent company of Monster, the leading global online careers property. We also own TMP Worldwide, one of the world's largest recruitment advertising agency networks. Our clients range from Fortune 100 companies to small and medium-sized enterprises and government agencies.

Monster is our flagship brand. Our Monster division operates in 24 countries and accounted for 82.5% of our total revenue for the nine months ended September 30, 2005. Monster connects employers with job seekers and offers innovative technology and services that give employers more control over the recruiting process. We have been able to capitalize on Monster's brand and create worldwide awareness by offering online recruiting solutions that we believe are redefining the way employers and job seekers connect. These tools, which include searchable job postings, a resume database and career management content and advice, provide users with more control over the employment process. Monster's job search, resume posting services and basic networking are free to the job seeker. Monster also offers premium career services at a fee to job seekers. Employers and human resources professionals pay to post jobs, search Monster's resume database and use career site hosting and applicant tracking systems and other ancillary services.

Business Combinations

For the period January 1, 2004 through September 30, 2005, we completed five business combinations. Although none of the following acquired businesses was considered to be a significant subsidiary, either individually or in the aggregate, they do affect the comparability of results from period to period. The acquisitions and the acquisition dates are as follows:

| Acquired Business | Acquisition Date | Business Segment/Region |
|---|-------------------|-------------------------|
| Military Advantage, Inc. | March 1, 2004 | Monster, North America |
| jobpilot GmbH | April 22, 2004 | Monster, Europe |
| Tickle Inc. | May 21, 2004 | Monster, North America |
| WebNeuron Services Limited (JobsAhead.com) | June 18, 2004 | Monster, Asia/Pacific |
| Emailjob.com SAS | February 11, 2005 | Monster, Europe |

Discontinued Operations

During the nine months ended September 30, 2005, the Company disposed of the following businesses that collectively comprised substantially all of its Directional Marketing operating segment. The results of operations of these businesses and associated disposal costs are reflected as discontinued operations in the consolidated statements of operations for the three and nine months ended September 30, 2005 (dollar amounts in thousands):

- On June 1, 2005, the Company sold substantially all of its Directional Marketing division to a private equity firm for net cash consideration of \$49,586 (\$80 million purchase price less working capital and other adjustments and \$2,500 of cash placed in escrow for an 18 month period following the disposition date) and a \$7,000, 3% promissory note due to the Company after 7 years. The sale included the Company's Yellow Pages business in North America and Japan along with its online relocation business. The Company recognized a loss on sale of these businesses of \$10,729 (\$1,803 net of tax benefits) in the second quarter of 2005. In the third quarter of 2005, the Company returned cash consideration of \$657 upon final determination of working capital sold in connection with the disposition. The sale of the Directional Marketing business did not include the Company's Directional Marketing operations in the United Kingdom. The Company's European Advertising & Communications management will continue to operate that business, and accordingly, those results have been reclassified to our Advertising & Communications operating segment.
- On May 2, 2005, the Company sold its interests in TMP Direct, an order fulfillment business, formerly part of the Company's Directional Marketing segment. The business was purchased by GECKO Inc, an entity owned 65% by George Eisele, a director of Monster Worldwide, for \$2,500 cash, paid at closing plus an amount equal to 50% of TMP Direct's working capital as of the closing date payable on May 2, 2006. George Eisele and another individual shareholder of GECKO Inc. personally guaranteed the May 2, 2006 payment obligation of GECKO Inc. The sale was not considered material and did not include a significant amount of assets. The Company recognized a pre-tax and after tax loss on sale of this business of \$551 in the second quarter of 2005.

During the year ended December 31, 2004, the Company disposed of the following businesses, which are reflected as discontinued operations in the consolidated statements of operations for the three and nine months ended September 30, 2004:

- In December 2004, the Company sold and disposed of certain Advertising & Communications businesses in Continental Europe, in order to focus more fully on our Monster business. None of these dispositions were considered material or included a significant amount of assets. The Company recognized a loss on sale of these businesses of \$7,055 (\$6,234 net of tax) in the fourth quarter of 2004.

- On October 5, 2004, the Company completed the sale of our wholly owned subsidiary US Motivation, Inc., formerly part of our Directional Marketing segment, to General Yellow Pages Consultants, Inc. d/b/a The Marquette Group for \$10,000 cash, subject to a post-closing adjustment. The Company recognized a pre-tax and after-tax gain on the sale of US Motivation of \$7,413 in the fourth quarter of 2004.

The following amounts related to our dispositions in 2005 and 2004, as well as residual costs related to our disposition of HH Group in 2003, have been segregated from continuing operations and are reflected as discontinued operations in each period's consolidated statement of operations:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------------|------------------------------------|-----------------|
| | 2005 | 2004 | 2005 | 2004 |
| Revenue | \$ | \$ 31,030 | \$ 23,402 | \$ 85,608 |
| Income (loss) before income taxes | \$ (42) | \$ 4,827 | \$ (10,381) | \$ 10,595 |
| Income tax expense (benefit) | (15) | 2,520 | (3,959) | 5,202 |
| Net income (loss) of discontinued operations | (27) | 2,307 | (6,422) | 5,393 |
| Pre-tax loss on sale of discontinued businesses | | | (11,280) | |
| Income tax benefit | | | (8,926) | |
| Loss on sale of businesses, net of tax | | | (2,354) | |
| Income (loss) from discontinued operations, net of tax | \$ (27) | \$ 2,307 | \$ (8,776) | \$ 5,393 |

Critical Accounting Policies and Items Affecting Comparability

Quality financial reporting relies on consistent application of Company accounting policies that are based on accounting principles generally accepted in the United States. The policies discussed below are considered by management to be critical to understanding our financial statements and often require management judgment and estimates regarding matters that are inherently uncertain. When such judgments and estimates are required, all material developments and resolutions are discussed with our audit committee.

Revenue Recognition

Monster. Our Monster division primarily earns revenue from the placement of job postings on the websites within the Monster network, access to the Monster network's online resume database and other ancillary services. We recognize revenue at the time that job postings are displayed on the Monster network websites. Revenue earned from subscriptions to the Monster network's resume database is recognized over the length of the underlying subscriptions, typically from two weeks to twelve months. Revenue associated with multiple element contracts is allocated based on the relative fair value of the services included in the contract. Unearned revenues are reported on the balance sheet as deferred revenue.

Advertising & Communications. Our Advertising & Communications division derives revenue from job advertisements placed in newspapers, Internet career job boards such as Monster and other media, plus associated fees for related services. Revenue is recorded net of media placement costs, which are passed on to the customer. Revenue is generally recognized upon placement date for newspapers and other print and offline media. Online media revenue is recognized when services are purchased.

Business Combinations, Goodwill and Intangible Assets

The purchase method of accounting requires that assets acquired and liabilities assumed be recorded at their fair values on the date of a business acquisition. Our consolidated financial statements and results of operations reflect an acquired business from the completion date of an acquisition and are not restated. The costs to acquire a business, including transaction, integration and restructuring costs, are allocated to the fair value of net assets acquired upon acquisition. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

The judgments that we make in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact net income in periods following a business combination. For purchase acquisitions, we generally use independent valuation specialists to aid in our conclusions of such fair values and asset lives. We evaluate our goodwill annually for impairment or more frequently if indicators of potential impairment exist. The determination of whether or not goodwill has become impaired involves a significant level of judgment in the assumptions underlying the approach used to determine the value of our reporting units. Changes in our strategy and/or market conditions could significantly impact these judgments and require reductions to recorded amounts of intangible assets.

Results of Operations

Consolidated operating results as a percent of revenue follows:

| | Three Months Ended September 30, 2005 | | 2004 | | Nine Months Ended September 30, 2005 | | 2004 | |
|--|---|---|-------|---|--|---|-------|---|
| | | % | | % | | % | | % |
| Revenue | 100.0 | % | 100.0 | % | 100.0 | % | 100.0 | % |
| Salaries and related | 43.9 | % | 46.4 | % | 43.8 | % | 45.4 | % |
| Office and general | 18.4 | % | 21.5 | % | 19.3 | % | 21.5 | % |
| Marketing and promotion | 18.6 | % | 18.8 | % | 19.8 | % | 20.9 | % |
| Total operating expenses | 80.9 | % | 86.7 | % | 82.9 | % | 87.9 | % |
| Operating income | 19.1 | % | 13.3 | % | 17.1 | % | 12.1 | % |
| Interest and other, net | 0.3 | % | -0.1 | % | 0.2 | % | -0.2 | % |
| Income from continuing operations before income taxes | 19.4 | % | 13.2 | % | 17.3 | % | 11.9 | % |
| Income taxes | 6.8 | % | 4.3 | % | 6.1 | % | 3.9 | % |
| Losses in equity interests | -0.3 | % | 0.0 | % | -0.2 | % | 0.0 | % |
| Income from continuing operations | 12.4 | % | 8.9 | % | 11.1 | % | 8.0 | % |
| Income (loss) from discontinued operations, net of tax | 0.0 | % | 1.2 | % | -1.2 | % | 1.0 | % |
| Net income | 12.4 | % | 10.1 | % | 9.9 | % | 9.0 | % |

The Three Months Ended September 30, 2005 Compared to the Three Months Ended September 30, 2004

Monster

The operating results of our Monster division for the three months ended September 30, 2005 and 2004 are as follows:

| (dollars in thousands) | 2005 | % of Revenue | 2004 | % of Revenue | Increase (decrease) | % Increase (decrease) |
|-------------------------------------|------------|-----------------|------------|-----------------|------------------------|--------------------------|
| Revenue | \$ 206,834 | 100.0 | \$ 157,679 | 100.0 | \$ 49,155 | 31.2 |
| Selling, general and administrative | 144,936 | 70.0 | 115,072 | 72.9 | 29,864 | 26.0 |
| Depreciation and amortization | 7,313 | 3.5 | 7,965 | 5.1 | (652) | -8.2 |
| Operating income | \$ 54,585 | 26.4 | \$ 34,642 | 22.0 | \$ 19,943 | 57.6 |

Our Monster division benefited significantly from our 2004 sales force expansion and an accelerating shift of recruitment advertising to the Internet, particularly overseas. Monster's international revenue increased 45.7% over the prior year period and currently accounts for 21.7% of the Monster division's revenue, compared to 19.5% in the 2004 period. Monster's largest gains overseas were realized in its central European operations. On an organic basis, which excludes the effects of currency exchange rates and the acquisitions that have not been owned the entire duration of each comparable period, international revenue increased \$12.4 million, or 40.2%. Revenue in our North American operations increased 27.7% over the 2004 period, as a result of our focus on small and medium sized businesses, while sales in the enterprise market (those businesses that are among the top 1,500 globally, in terms of employees) showed modest growth. We continue to see greater demand for our self-service eCommerce product which we believe is our most efficient sales channel. eCommerce has been an excellent source of new customers, especially in the small and medium sized business arena. We are also beginning to see client demand for eCommerce in our enterprise customer base.

Operating income at the Monster division increased due to the strong operating leverage in our North American operations and the acceptance of our eCommerce product. North American operating income was \$56.6 million, a 61.9% increase over the prior year period. Our international operations posted an operating loss in the third quarter of 2005 of \$2.1 million, as we continued to invest in marketing and our sales infrastructure. Additionally, our international operations incurred \$9.0 million of marketing and promotion expense in the third quarter of 2005.

Advertising & Communications

The operating results of our Advertising & Communications division for the three months ended September 30, 2005 and 2004 are as follows:

| (dollars in thousands) | 2005 | % of Revenue | 2004 | % of Revenue | Increase (decrease) | % Increase (decrease) |
|-------------------------------------|-----------|-----------------|-----------|-----------------|------------------------|--------------------------|
| Revenue | \$ 42,454 | 100.0 | \$ 40,940 | 100.0 | \$ 1,514 | 3.7 |
| Selling, general and administrative | 36,329 | 85.6 | 37,540 | 91.7 | (1,211) | -3.2 |
| Depreciation and amortization | 1,678 | 4.0 | 1,754 | 4.3 | (76) | -4.3 |
| Operating income | \$ 4,447 | 10.5 | \$ 1,646 | 4.0 | \$ 2,801 | 170.2 |

Revenue at our Advertising & Communications division increased primarily due to a stronger recruitment advertising market in North America, while international revenue declined 3.4% compared to the third quarter of 2004. The division made strong progress in North America with revenue growth of 11.7% compared to the same period last year. The growth in North America was mainly due to increased sales of interactive help-wanted advertising and other on-line products, partially offset by decreasing commissions earned from advertising placement in traditional media.

The division posted operating income in both North America and internationally for the third quarter of 2005, as a result of a concerted effort to maintain a disciplined cost structure and manage expenses to expected revenue levels.

Consolidated Operating Expenses and Operating Income

Consolidated operating expenses and operating income for the three months ended September 30, 2005 and 2004 are as follows:

| (dollars in thousands) | 2005 | % of Revenue | 2004 | % of Revenue | Increase | % Increase |
|-------------------------|------------|-----------------|-----------|-----------------|-----------|------------|
| Salaries and related | \$ 109,332 | 43.9 | \$ 92,124 | 46.4 | \$ 17,208 | 18.7 |
| Office and general | 45,931 | 18.4 | 42,706 | 21.5 | 3,225 | 7.6 |
| Marketing and promotion | 46,296 | 18.6 | 37,349 | 18.8 | 8,947 | 24.0 |
| Operating expenses | 201,559 | 80.9 | 172,179 | 86.7 | 29,380 | 17.1 |
| Operating income | \$ 47,729 | 19.1 | \$ 26,440 | 13.3 | \$ 21,289 | 80.5 |

Our Monster division accounted for all of the year over year increase in total operating expenses, stemming mainly from hiring initiatives that we undertook in the 2004 period, acquisitions and increased marketing and promotion of the Monster brand. Costs associated with our hiring initiatives mainly reflect increased commissions and the addition of over 500 sales and support staff across the Monster division since the second quarter of 2004. In addition, approximately \$2.0 million of the increase in operating expenses is associated with the acquisition of Emailjob.com SAS, which was acquired in February 2005. Compared with the third quarter of 2004, the 2005 period also includes a \$0.3 million increase in operating expenses related to currency exchange rates and lower expenses in our Advertising and Communications division were offset by an increase in corporate expenses.

Income Taxes

Income taxes for the three months ended September 30, 2005 and 2004 are as follows:

| (dollars in thousands) | Three Months Ended September 30, | | Increase | |
|---|-------------------------------------|-----------|----------|------|
| | 2005 | 2004 | \$ | % |
| Income from continuing operations before income taxes | \$ 48,444 | \$ 26,213 | 22,231 | 84.8 |
| Income taxes | \$ 16,955 | \$ 8,532 | 8,423 | 98.7 |
| Effective tax rate | 35.0% | 32.5% | | |

Our effective tax rates differ from the statutory rate due to the impact of state and local income taxes, certain nondeductible expenses, foreign earnings taxed at different tax rates and valuation allowances. Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates, changes in the valuation of our deferred tax assets or liabilities, or changes in tax laws or interpretations thereof. In addition, our filed tax returns are subject to the examination by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

Earnings Per Share

Diluted earnings per share increased 47% in the current period, even as diluted weighted average shares outstanding increased 4.4 million shares. The share increase is mainly the result of incremental dilution associated with a higher average stock price in the 2005 period, as well as additional share issuances for option exercises. Net income was 12.4% of total revenue in the 2005 period, compared to 10.1% in the 2004 period.

The Nine Months Ended September 30, 2005 Compared to the Nine Months Ended September 30, 2004**Monster**

The operating results of our Monster division for the nine months ended September 30, 2005 and 2004 are as follows:

| (dollars in thousands) | 2005 | % of Revenue | 2004 | % of Revenue | Increase | % Increase |
|-------------------------------------|------------|-----------------|------------|-----------------|------------|------------|
| Revenue | \$ 594,459 | 100.0 | \$ 421,745 | 100.0 | \$ 172,714 | 41.0 |
| Selling, general and administrative | 425,010 | 71.5 | 315,155 | 74.7 | 109,855 | 34.9 |
| Depreciation and amortization | 22,172 | 3.7 | 18,714 | 4.4 | 3,458 | 18.5 |
| Operating income | \$ 147,277 | 24.8 | \$ 87,876 | 20.8 | \$ 59,401 | 67.6 |

Our Monster division's increase in revenue over the prior year period was primarily driven by our North American and European operations. North American revenue increased 33.0% and represents 77.8% of our total Monster revenue. The increase in revenue is a direct result of investments we made in our sales force in the latter half of 2004 and the integration of acquired companies. In addition our eCommerce product, which allows our clients to service their accounts online without assistance, continues to attract new customers and generate strong revenue across North America. International revenue increased 78.4% over the 2004 period as our acquisitions of jobpilot GmbH in Germany and Emailjob.com in France increased our presence in these two key European markets. Additional increases in international revenue resulted from our continued investments in sales force expansion and marketing efforts throughout Europe.

Our North American operations accounted for the entire increase in total operating income over the 2004 period. North American management has been diligently managing costs and keeping expenses in line with revenues. Expenses increased across the division primarily due to the addition of sales staff, our investments in marketing and additional costs associated with businesses that we acquired. North American operating income was \$153.0 million for the nine months ended September 30, 2005, a 71.2% increase over the prior year period. Our international operations posted a \$5.7 million operating loss in the first nine months of 2005, as investments in marketing and additional sales people negatively impacted operating margins.

Advertising & Communications

The operating results of our Advertising & Communications division for the nine months ended September 30, 2005 and 2004 are as follows:

| (dollars in thousands) | 2005 | % of Revenue | 2004 | % of Revenue | Increase (decrease) | % Increase (decrease) |
|-------------------------------------|------------|-----------------|------------|-----------------|------------------------|--------------------------|
| Revenue | \$ 125,861 | 100.0 | \$ 119,412 | 100.0 | \$ 6,449 | 5.4 |
| Selling, general and administrative | 113,478 | 90.2 | 109,856 | 92.0 | 3,622 | 3.3 |
| Depreciation and amortization | 4,734 | 3.8 | 5,264 | 4.4 | (530) | -10.1 |
| Operating income | \$ 7,649 | 6.1 | \$ 4,292 | 3.6 | \$ 3,357 | 78.2 |

Advertising & Communications revenue primarily increased due to higher demand of online and print advertising, especially in North America. Our North American revenue increased 10.8% over the 2004 period, while our international revenue was essentially flat, rising 0.9% in the first nine months of 2005. Revenue increases were primarily realized in the higher commission online space, while commissions earned on the sales of traditional media have been in decline due to client losses and migration to the Internet. For the nine months ended September 30, 2005, the division recognized approximately \$15.4

Edgar Filing: MONSTER WORLDWIDE INC - Form 10-Q

million of revenue related to the sale of certain Monster products to customers, an increase of 93.6% over the \$7.9 million of revenue the division recorded in the first nine months of 2004.

Operating income increased 78.2% over the first nine months of 2004, primarily due to increased revenue and disciplined management of core operating expenses. Management is continually analyzing the cost structure of the business to ensure that costs are in line with revenues.

Consolidated Operating Expenses and Operating Income

Consolidated operating expenses and operating income for the nine months ended September 30, 2005 and 2004 are as follows:

| (dollars in thousands) | 2005 | % of Revenue | 2004 | % of Revenue | Increase | % Increase |
|-------------------------|------------|-----------------|------------|-----------------|-----------|------------|
| Salaries and related | \$ 315,452 | 43.8 | \$ 245,946 | 45.4 | \$ 69,506 | 28.3 |
| Office and general | 139,175 | 19.3 | 116,454 | 21.5 | 22,721 | 19.5 |
| Marketing and promotion | 142,434 | 19.8 | 113,280 | 20.9 | 29,154 | 25.7 |
| Operating expenses | 597,061 | 82.9 | 475,680 | 87.9 | 121,381 | 25.5 |
| Operating income | \$ 123,259 | 17.1 | \$ 65,477 | 12.1 | \$ 57,782 | 88.2 |

Our Monster division accounted for substantially all of the year over year increase in total operating expenses, stemming mainly from the hiring initiatives we undertook in the latter half of 2004 and costs associated with acquisitions, particularly Tickle, jobpilot GmbH and Emailjob. Costs associated with our hiring initiatives mainly reflect higher commissions paid to sales professionals and sales and support staff. In addition, we continue to invest in the Monster brand, both in North America and in key international markets. Our acquisition of jobpilot GmbH increased our presence in several countries across Europe and helped establish us as a leader in Germany. Our marketing and promotion in the 2005 period also includes resources allocated to re-brand our jobpilot GmbH properties. Corporate operating expenses increased \$5.0 million over the 2004 period mainly due to higher salary and related expenses and severance related to former executives, while currency translation had a \$3.9 million effect. We remain committed to analyzing our expense infrastructure to ensure that costs are in line with revenues, especially given the uneven employment market in North America and Europe.

Income Taxes

Income taxes for the nine months ended September 30, 2005 and 2004 are as follows:

| (dollars in thousands) | Nine Months Ended September 30, | | Increase | |
|---|------------------------------------|-----------|----------|-------|
| | 2005 | 2004 | \$ | % |
| Income from continuing operations before income taxes | \$ 124,950 | \$ 64,535 | 60,415 | 93.6 |
| Income taxes | \$ 43,990 | \$ 21,295 | 22,695 | 106.6 |
| Effective tax rate | 35.2% | 33.0% | | |

Our effective tax rates differ from the statutory rate due to the impact of state and local income taxes, certain nondeductible expenses, foreign earnings taxed at different tax rates and valuation allowances. Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates, changes in the valuation of our deferred tax assets or liabilities, or changes in tax laws or interpretations thereof. In addition, our filed tax returns are subject to the examination by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

Earnings Per Share

Diluted earnings per share increased 39% in the nine month 2005 period, even as diluted weighted average shares outstanding increased 4.4 million shares, mainly as a result of incremental dilution associated with a higher average stock price in the 2005 period, as well as additional share issuances for option exercises. Net income was 9.9% of total revenue in the 2005 period, compared to 9.0% in the 2004 period.

Financial Condition

| (in thousands) | Nine Months Ended September 30, | |
|--|------------------------------------|------------|
| | 2005 | 2004 |
| Cash provided by operating activities of continuing operations | \$ 180,264 | \$ 91,649 |
| Cash used for investing activities of continuing operations | (74,891) | (131,752) |
| Cash provided by financing activities of continuing operations | 34,174 | 66,707 |
| Cash used for discontinued operations and business held for sale | (20,353) | (52,076) |
| Effect of exchange rate changes on cash and cash equivalents | (3,596) | 429 |

Our principal capital requirements have been to fund (i) working capital, (ii) marketing and development of our Monster network, (iii) acquisitions (iv) capital expenditures and (v) the 2003 spin-off of Hudson Highland Group, Inc. Prior to the sale of our Directional Marketing segment in the second quarter of 2005, our working capital requirements were generally higher in the first half of each year, when payments to major Yellow Page directory publishers were at their highest levels. In addition, because of recent business acquisitions and our 2002 and 2003 reorganization initiatives, we have substantial cash commitments over the next several years. These commitments as of September 30, 2005 are as follows (amounts in thousands):

| Contractual Obligations (in thousands) | Payments due by period | | | | |
|--|------------------------|---------------------|-------------|-----------|----------------------|
| | Total | Less than 1 year | 1 - 3 years | 3-5 years | More than 5 years |
| Purchase commitments advertising contracts | \$ 9,395 | \$ 7,895 | \$ 1,500 | \$ | \$ |
| Borrowings under financing arrangement and other notes payable | 531 | 145 | 170 | 170 | 46 |
| Capital lease obligations | 462 | 334 | 128 | | |
| Operating lease obligations | 284,804 | 33,611 | 63,999 | 56,366 | 130,828 |
| Acquisition notes payable | 43,715 | 29,424 | 13,811 | 387 | |
| Total | \$ 338,907 | \$ 71,409 | \$ 79,608 | \$ 56,923 | \$ 130,967 |

In addition to the cash commitments above, in October 2005, we paid approximately \$94.0 million, net of cash and short term investments acquired, for our acquisition of JobKorea (www.jobkorea.co.kr), an online recruitment web site in South Korea. The Company also has certain rights and obligations, the amount and likelihood of which are not currently determinable, to acquire a 51% or more interest in its equity investee, ChinaHR, in the event of an initial public offering or February 1, 2008, whichever comes first.

Historically, we have relied on funds provided by operating activities, equity offerings, short and long-term borrowings and seller-financed notes to meet our liquidity needs. We invest our excess cash predominantly in money market funds, overnight deposits, and commercial paper each having maturities of less than three months and in auction rate bonds, all of which are highly liquid and are of high-quality investment grade with the intent to make such funds readily available for operating and strategic long-term equity investment purposes.

As of September 30, 2005, we had cash and cash equivalents of \$313.7 million, compared to \$198.1 million as of December 31, 2004. Our increase in cash of \$115.6 million in the nine months ended September 30,

2005, primarily relates to our operating and financing activities offset by cash used for investing activities. Cash provided by operating activities was \$160.6 million for the nine months ended September 30, 2005 and resulted from \$79.7 million of income from continuing operations and \$62.5 million of net non-cash items, increased by a \$38.1 million change in working capital. Increases in accounts payable and accrued expenses mainly reflect timing of accounts payable and general accruals as well as increased deferred tax liabilities related to our continuing operations. Deferred revenue continued to increase in 2005 due to our success in driving more business to Monster, in North America, Asia Pacific and Europe. Partially offsetting these sources of cash was a use for prepaid and other assets, which increased with the disposition of our Directional Marketing segment. As a result of the disposition, we recorded deferred consideration receivable related to the sale as well as certain deferred tax assets. In addition, cash flow from operating activities was decreased by \$19.6 million from cash used in our discontinued Directional Marketing businesses.

We used \$75.6 million of cash for investing activities in the nine months ended September 30, 2005. The use of cash mainly reflects our net cash purchase of Emailjob SAS for \$20.7 million and our \$50.1 million cash investment for 40% of ChinaHR.com. We also paid \$27.3 million of indebtedness related to our purchases of Military Advantage Inc., QuickHire, Inc., and Tickle Inc. These uses of cash were substantially offset by \$49.1 million of net cash received from the sale of our Directional Marketing and other businesses. Furthermore, we used \$24.1 million of cash for capital expenditures in the first nine months of 2005.

Cash provided by financing activities consists of \$37.7 million of cash received from employee stock option exercises, slightly offset by \$2.1 million of payments on capitalized lease obligations. In addition, we used \$1.4 million of cash to repurchase common stock that was issued under a pre-existing employment agreement.

We believe that our current cash and cash equivalents, revolving credit facility and cash we anticipate to generate from operating activities will provide us with sufficient liquidity to satisfy our working capital needs, capital expenditures, investment requirements and commitments through at least the next twelve months. Our cash generated from operating activities is subject to fluctuations in the global economy and unemployment rates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risks include fluctuations in interest rates, variability in interest rate spread relationships (i.e., prime to LIBOR spreads) and exchange rate variability. At September 30, 2005, the utilized portion of our three-year revolving credit agreement was approximately \$3.5 million for standby letters of credit and approximately \$96.5 million was unused. Interest on future outstanding loans under the revolving credit agreement shall be charged based on a variable interest rate related to our choice of (1) the higher of (a) the prime rate or (b) the Federal Funds rate plus $\frac{1}{2}$ of 1%, plus a margin determined by the ratio of our debt to earnings before interest, taxes, depreciation and amortization (EBITDA) as defined in the revolving credit agreement or (2) the London Interbank Offered Rate (LIBOR) plus a margin determined by the ratio of our debt to EBITDA as defined in the revolving credit agreement. We use forward foreign exchange contracts as cash flow hedges to offset risks related to foreign currency transactions. These transactions primarily relate to non-functional currency denominated inter-company funding loans. We do not trade derivative financial instruments for speculative purposes.

We conduct operations in various foreign countries, including Australia, Belgium, Canada, France, Germany, Ireland, India, Italy, the Netherlands, New Zealand, Sweden, Spain, and the United Kingdom. For the three and nine months ended September 30, 2005, approximately 27.8% and 28.7%, respectively, of our revenue was earned outside the United States and collected in local currency and related operating expenses were also paid in such corresponding local currency. Accordingly, we are subject to risk of exchange rate fluctuations between such local currencies and the dollar.

The financial statements of our non-U.S. subsidiaries are translated into U.S. dollars using current rates of exchange, with gains or losses included in the cumulative translation adjustment account, a component of stockholders' equity. During the three and nine months ended September 30, 2005, we had a translation losses of \$1.1 million and \$58.9 million, respectively, primarily attributable to the strengthening of the U.S. dollar against the Euro, the British Pound and the Swedish Krona.

ITEM 4. CONTROLS AND PROCEDURES

Monster Worldwide maintains disclosure controls and procedures, as such term is defined under Securities Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, Monster Worldwide's management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and Monster Worldwide's management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Monster Worldwide has carried out an evaluation, as of the end of the period covered by this report, under the supervision and with the participation of Monster Worldwide's management, including Monster Worldwide's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Monster Worldwide's disclosure controls and procedures. Based upon their evaluation and subject to the foregoing, the Chief Executive Officer and Chief Financial Officer concluded that Monster Worldwide's disclosure controls and procedures were effective in ensuring that material information relating to Monster Worldwide is made known to the Chief Executive Officer and Chief Financial Officer by others within Monster Worldwide during the period in which this report was being prepared.

There have been no significant changes in Monster Worldwide's internal controls over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II OTHER INFORMATION

ITEM 6. EXHIBITS.

The following exhibits are filed as a part of this report:

- 15 Letter from BDO Seidman, LLP regarding unaudited interim financial information.
- 31.1 Certification by Andrew J. McKelvey pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Charles Baker pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by Andrew J. McKelvey pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by Charles Baker pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | | |
|-------------------------|--|--|
| Dated: November 3, 2005 | MONSTER WORLDWIDE, INC. (Registrant) By: | /s/ ANDREW J. MCKELVEY Andrew J. McKelvey Chairman of the Board and Chief Executive Officer (principal executive officer) |
| Dated: November 3, 2005 | By: | /s/ CHARLES BAKER Charles Baker Chief Financial Officer (principal financial officer) |
| Dated: November 3, 2005 | By: | /s/ JONATHAN TRUMBULL Jonathan Trumbull Chief Accounting Officer and Global Controller (principal accounting officer) |