KEWAUNEE SCIENTIFIC CORP /DE/
Form 10-Q
September 10, 2014
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

# FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended July 31, 2014**

**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 0-5286**

**KEWAUNEE SCIENTIFIC CORPORATION**

**(Exact name of registrant as specified in its charter)**

| **Delaware** | **38-0715562** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(IRS Employer Identification No.)** |
| **2700 West Front Street Statesville, North Carolina** | **28677-2927** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**Registrant s telephone number, including area code: (704) 873-7202**

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|---|---|
| Large accelerated filer ¨ | Accelerated filer ¨ |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company x |

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of September 8, 2014, the registrant had outstanding 2,626,691 shares of Common Stock.

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**KEWAUNEE SCIENTIFIC CORPORATION**

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Part 1. Financial Information

**Item 1. Financial Statements**

*Kewaunee Scientific Corporation*

Consolidated Statements of Operations

*(Unaudited)*

*(in thousands, except per share data)*

| | Three months ended July 31 | |
|---|---|---|
| | **2014** | **2013** |
| Net Sales | $ 30,534 | $ 32,003 |
| Costs of products sold | 24,386 | 25,427 |
| Gross profit | 6,148 | 6,576 |
| Operating expenses | 4,348 | 4,144 |
| Operating earnings | 1,800 | 2,432 |
| Other income | 126 | 80 |
| Interest expense | (81) | (88) |
| Earnings before income taxes | 1,845 | 2,424 |
| Income tax expense | 585 | 807 |
| Net earnings | 1,260 | 1,617 |
| Less: net earnings attributable to the noncontrolling interest | 26 | 30 |
| Net earnings attributable to Kewaunee Scientific Corporation | $ 1,234 | $ 1,587 |
| Net earnings per share attributable to Kewaunee Scientific Corporation stockholders | | |
| Basic | $ 0.47 | $ 0.61 |
| Diluted | $ 0.47 | $ 0.61 |
| Weighted average number of common shares outstanding | | |
| Basic | 2,620 | 2,596 |
| Diluted | 2,651 | 2,618 |

*See accompanying notes to consolidated financial statements.*

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*Kewaunee Scientific Corporation*

Consolidated Statements of Comprehensive Income

*(Unaudited)*

*(in thousands)*

| | Three months ended July 31 | |
|---|---|---|
| | **2014** | **2013** |
| Net earnings | $ 1,260 | $ 1,617 |
| Other comprehensive income (loss), net of tax: | | |
| Foreign currency translation adjustments | 10 | (524) |
| Change in fair value of cash flow hedge | 13 | 65 |
| Other comprehensive income (loss) | 23 | (459) |
| Comprehensive income, net of tax | 1,283 | 1,158 |
| Less: comprehensive income attributable to the noncontrolling interest | 26 | 30 |
| Comprehensive income attributable to Kewaunee Scientific Corporation | $ 1,257 | $ 1,128 |

*See accompanying notes to consolidated financial statements.*

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*Kewaunee Scientific Corporation*

Consolidated Statement of Stockholder s Equity

*(Unaudited)*

*(in thousands)*

| ***$ in thousands, except shares and per share amounts*** | **Common Stock** | **Additional Paid-in Capital** | **Treasury Stock** | **Retained Earnings** | **Accumulated Other Comprehensive Income (Loss)** | **Total Stockholders Equity** |
|---|---|---|---|---|---|---|
| Balance at April 30, 2014 | $ 6,557 | $ 1,642 | $ (57) | $ 32,090 | $ (6,273) | $ 33,959 |
| Net earnings attributable to Kewaunee Scientific Corporation | | | | 1,234 | | 1,234 |
| Other comprehensive income | | | | | 23 | 23 |
| Cash dividends declared, $0.11 per share | | | | (288) | | (288) |
| Stock options exercised, 1,659 shares | 9 | (13) | 25 | | | 21 |
| Stock based compensation | | 58 | | | | 58 |
| Purchase of treasury stock, 1,159 shares | | | (21) | | | (21) |
| Balance at July 31, 2014 | $ 6,566 | $ 1,687 | $ (53) | $ 33,036 | $ (6,250) | $ 34,986 |

*See accompanying notes to consolidated financial statements.*

**Table of Contents**

*Kewaunee Scientific Corporation*

Consolidated Balance Sheets

*(in thousands)*

| | July 31, 2014 (Unaudited) | April 30, 2014 |
|---|---|---|
| ***Assets*** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 4,368 | $ 6,248 |
| Restricted cash | 2,336 | 368 |
| Receivables, less allowance | 25,709 | 23,473 |
| Inventories | 12,213 | 11,938 |
| Deferred income taxes | 639 | 646 |
| Prepaid expenses and other current assets | 1,438 | 680 |
| Total Current Assets | 46,703 | 43,353 |
| Property, plant and equipment, at cost | 46,837 | 46,391 |
| Accumulated depreciation | (32,354) | (31,821) |
| Net Property, Plant and Equipment | 14,483 | 14,570 |
| Deferred income taxes | 1,407 | 1,385 |
| Other | 3,553 | 3,409 |
| Total Other Assets | 4,960 | 4,794 |
| Total Assets | $ 66,146 | $ 62,717 |
| ***Liabilities and Equity*** | | |
| Current Liabilities: | | |
| Short-term borrowings and interest rate swap | $ 5,214 | $ 3,150 |
| Current portion of long-term debt | 421 | 421 |
| Accounts payable | 9,131 | 8,542 |
| Employee compensation and amounts withheld | 1,673 | 2,000 |
| Deferred revenue | 283 | 137 |
| Other accrued expenses | 2,528 | 1,913 |
| Total Current Liabilities | 19,250 | 16,163 |
| Long-term debt | 4,087 | 4,192 |
| Accrued pension and deferred compensation costs | 7,531 | 7,250 |
| Other non-current liabilities | | 888 |
| Total Liabilities | 30,868 | 28,493 |
| Commitments and Contingencies | | |

| | | |
|---|---|---|
| Equity: | | |
| Common Stock | 6,566 | 6,557 |
| Additional paid-in-capital | 1,687 | 1,642 |
| Retained earnings | 33,036 | 32,090 |
| Accumulated other comprehensive loss | (6,250) | (6,273) |
| Common stock in treasury, at cost | (53) | (57) |
| Total Kewaunee Scientific Corporation Stockholders Equity | 34,986 | 33,959 |
| Noncontrolling interest | 292 | 265 |
| Total Equity | 35,278 | 34,224 |
| Total Liabilities and Equity | $ 66,146 | $ 62,717 |

*See accompanying notes to consolidated financial statements.*

**Table of Contents**

*Kewaunee Scientific Corporation*

Consolidated Statements of Cash Flows

*(Unaudited)*

*(in thousands)*

| | Three months ended July 31 | |
|---|---|---|
| | **2014** | **2013** |
| ***Cash flows from operating activities:*** | | |
| Net earnings | $ 1,260 | $ 1,617 |
| Adjustments to reconcile net earnings to net cash (used in) provided by operating activities: | | |
| Depreciation | 628 | 631 |
| Bad debt provision | 26 | 29 |
| Stock based compensation expense | 58 | 59 |
| Provision for deferred income tax expense | (15) | (35) |
| Change in assets and liabilities: | | |
| (Increase) decrease in receivables | (2,262) | 1,103 |
| (Increase) decrease in inventories | (275) | 869 |
| Increase (decrease) in accounts payable and other accrued expenses | 877 | (2,105) |
| Increase in deferred revenue | 146 | 160 |
| Other, net | (638) | (523) |
| Net cash (used in) provided by operating activities | (195) | 1,805 |
| ***Cash flows from investing activities:*** | | |
| Capital expenditures | (541) | (528) |
| (Increase) decrease in restricted cash | (1,968) | 72 |
| Net cash used in investing activities | (2,509) | (456) |
| ***Cash flows from financing activities:*** | | |
| Dividends paid | (288) | (260) |
| Increase (decrease) in short-term borrowings and interest rate swap | 2,064 | (1,896) |
| Proceeds from long-term debt | | 5,000 |
| Payments on long-term debt | (105) | (3,504) |
| Payment toward purchase of noncontrolling interest in subsidiary | (888) | (1,780) |
| Net proceeds from exercise of stock options (including tax benefit) | | 57 |
| Net cash provided by (used) in financing activities | 783 | (2,383) |
| Effect of exchange rate changes on cash | 41 | (369) |
| ***Decrease in cash and cash equivalents*** | (1,880) | (1,403) |
| ***Cash and cash equivalents, beginning of period*** | 6,248 | 5,811 |

| | | |
|---|---|---|
| ***Cash and cash equivalents, end of period*** | $ 4,368 | $ 4,408 |
| ***Supplemental Disclosure of Cash Flow Information*** | | |
| Purchase of noncontrolling interest in subsidiary other accrued expenses and other non-current liabilities | $ | $ 1,775 |

*See accompanying notes to consolidated financial statements.*

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Kewaunee Scientific Corporation

Notes to Consolidated Financial Statements

(unaudited)

A. Financial Information

The unaudited interim consolidated financial statements of Kewaunee Scientific Corporation (the Company ) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the Commission ). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These interim consolidated financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of these financial statements and should be read in conjunction with the consolidated financial statements and notes included in the Company s 2014 Annual Report to Stockholders. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year. The condensed consolidated balance sheet as of April 30, 2014 included in this interim period filing has been derived from the audited financial statements at that date, but does not include all of the information and related notes required by generally accepted accounting principles (GAAP) for complete financial statements.

The preparation of the interim consolidated financial statements requires management to make certain estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

B. Earnings Per Share

Basic earnings per share is based on the weighted average number of common shares outstanding during the three month period. Diluted earnings per share reflects the assumed exercise and conversion of outstanding options under the Company s stock option plans, except when options have an anti-dilutive effect. Options to purchase 36,200 shares were not included in the computation of diluted earnings per share for the three month period ended July 31, 2014, because the option exercise prices were greater than the average market price of the common shares at that date, and accordingly, such options would have an antidilutive effect. Options to purchase 72,850 shares were not included in the computation of diluted earnings per share for the three month period ended July 31, 2013, because the effect would be anti-dilutive.

C. Inventories

Inventories consisted of the following (in thousands):

| | July 31, 2014 | April 30, 2014 |
|---|---|---|
| Finished products | $ 3,294 | $ 2,909 |
| Work in process | 1,410 | 1,550 |
| Raw materials | 7,509 | 7,479 |

| | | |
|---|---|---|
| | $ 12,213 | $ 11,938 |

For interim reporting, LIFO inventories are computed based on year-to-date quantities and interim changes in price levels. Changes in quantities and price levels are reflected in the interim consolidated financial statements in the period in which they occur.

D. Segment Information

The following table provides financial information by business segments for the three months ended July 31, 2014 and 2013 (in thousands):

| | **Domestic Operations** | **International Operations** | **Corporate** | **Total** |
|---|---|---|---|---|
| Three months ended July 31, 2014 | | | | |
| Revenues from external customers | $ 24,248 | $ 6,286 | $ | $ 30,534 |
| Intersegment revenues | 124 | 532 | (656) | |
| Earnings (loss) before income taxes | 2,203 | 704 | (1,062) | 1,845 |
| Three months ended July 31, 2013 | | | | |
| Revenues from external customers | $ 27,073 | $ 4,930 | $ | $ 32,003 |
| Intersegment revenues | 1,404 | 486 | (1,890) | |
| Earnings (loss) before income taxes | 3,182 | 557 | (1,315) | 2,424 |

E. Defined Benefit Pension Plans

The Company has non-contributory defined benefit pension plans covering substantially all salaried and hourly employees. These plans were amended as of April 30, 2005, no further benefits have been, or will be, earned under the plans subsequent to the amendment date, and no additional participants will be added to the plans. The Company did not make any contributions to the plans during the three months ended July 31, 2014 and 2013. The Company does not expect any contributions to be paid to the plans during fiscal year 2015.

Pension expense consisted of the following (in thousands):

| | Three months ended July 31, 2014 | Three months ended July 31, 2013 |
|---|---|---|
| Service cost | $ -0- | $ -0- |
| Interest cost | 222 | 212 |
| Expected return on plan assets | (325) | (317) |
| Recognition of net loss | 234 | 283 |
| Net periodic pension expense | $ 131 | $ 178 |

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

The Company s 2014 Annual Report to Stockholders contains management s discussion and analysis of financial condition and results of operations as of and for the year ended April 30, 2014. The following discussion and analysis describes material changes in the Company s financial condition since April 30, 2014. The analysis of results of operations compares the three months ended July 31, 2014 with the comparable period of the prior year.

Results of Operations

Sales for the three months ended July 31, 2014 were $30,534,000, a decrease of 4.6% from sales of $32,003,000 in the comparable period of the prior year. Sales from Domestic Operations were $24,248,000, down from $27,073,000 in the comparable period of the prior year. The domestic laboratory construction marketplace continued to be challenging during the quarter, particularly for projects requiring summer delivery. Sales from International Operations were $6,286,000, up from sales of $4,930,000 in the comparable period of the prior year, as the Company realized increased opportunities in the international market.

The order backlog was $82.7 million at July 31, 2014, as compared to $89.0 million at April 30, 2014 and $71.1 million at July 31, 2013.

The gross profit margin for the three months ended July 31, 2014 was 20.1% of sales, as compared to 20.5% of sales in the comparable quarter of the prior year. The decrease in the gross profit margin percentage for the three months of the current period was primarily due to the impact of the lower sales on overhead expense absorption in the Company s factories.

Operating expenses for the three months ended July 31, 2014 were $4,348,000, or 14.2% of sales, as compared to $4,144,000, or 12.9% of sales, in the comparable period of the prior year. Operating expenses for the three months ended July 31, 2014 reflect an increase of $348,000 in sales and marketing expenses, an increase of $196,000 in operating expenses for the Company s International Operations, and a decrease of $273,000 in corporate and administrative salaries and incentive compensation.

Interest expense was $81,000 for the three months ended July 31, 2014, as compared to $88,000 for the comparable period of the prior year. The lower interest expense in the current quarter resulted from lower borrowing levels in the first three months of the current year.

Income tax expense of $585,000 was recorded for the three months ended July 31, 2014, as compared to income tax expense of $807,000 recorded for the comparable period of the prior year. The effective tax rates were 31.7% and 33.3% for the three months ended July 31, 2014 and 2013, respectively. The lower effective tax rate for the current period resulted from a higher ratio of pretax earnings in the current period attributable to subsidiaries located in geographic locations with lower income tax rates.

Noncontrolling interests related to the Company s subsidiary not 100% owned by the Company reduced net earnings by $26,000 for the three months ended July 31, 2014, as compared to $30,000 for the comparable period of the prior year. The change in the net earnings attributable to the noncontrolling interest in the current period was due to change of earnings of the subsidiary in the related periods.

Net earnings of $1,234,000, or $0.47 per diluted share, were reported for the three months ended July 31, 2014, compared to net earnings of $1,587,000, or $0.61 per diluted share, in the prior year period.

Liquidity and Capital Resources

Historically, the Company s principal sources of liquidity have been funds generated from operations, supplemented as needed by short-term borrowings under the Company s revolving credit facility. Additionally, certain machinery and equipment are financed by non-cancellable operating leases or capital leases. The Company believes that these sources will be sufficient to support ongoing business requirements in the current year, including capital expenditures.

The Company had working capital of $27,453,000 at July 31, 2014, compared to $27,190,000 at April 30, 2014. The ratio of current assets to current liabilities was 2.4-to-1.0 at July 31, 2014, compared to 2.7-to-1.0 at April 30, 2014. At July 31, 2014, advances of $4,195,000 were outstanding under the Company s bank revolving credit facility, compared to advances of $2,900,000 outstanding as of April 30, 2014. The Company had standby letters of credit outstanding of $4,210,000 at July 31, 2014, compared to $4,305,000 at April 30, 2014. Amounts available under the $20 million revolving credit facility were $11.6 million and $12.8 million at July 31, 2014 and April 30, 2014, respectively. Outstanding short-term debt under credit arrangements with foreign banks at July 31, 2014 was $828,000, compared to $39,000 at April 30, 2014. Total bank borrowings were $9,722,000 at July 31, 2014, compared to $7,763,000 at April 30, 2014.

The Company s operations used cash of $195,000 during the three months ended July 31, 2014, with cash primarily provided from earnings and an increase of $877,000 in accounts payable and other accrued expenses, offset by an increase in accounts receivable of $2,262,000. The Company s operations provided cash of $1,805,000 during the three months ended July 31, 2013. Cash was primarily provided from earnings, a decrease in accounts receivable of $1,103,000, and a decrease in inventory of $869,000, partially offset by a decrease in accounts payable and other accrued expenses of $2,105,000.

During the three months ended July 31, 2014, net cash of $2,509,000 was used in investing activities, which included $541,000 for capital expenditures and a $1,968,000 increase in restricted cash. This compares to the use of $456,000 for investing activities in the comparable period of the prior year, primarily for capital expenditures. The increase in restricted cash in the current year period was related to an increase in the amount of fixed deposits of the Company s international subsidiaries pledged to support bank guarantees required under customer contracts.

The Company s financing activities provided cash of $783,000 during the three months ended July 31, 2014 with cash provided by an increase in short-term borrowing of $2,064,000, partially offset by payment of $888,000 for the second installment toward the purchase of the noncontrolling interest in a subsidiary, cash dividends of $288,000 paid to stockholders, and payments of $105,000 on long-term debt. The Company s financing activities used cash of $2,383,000 during the three months ended July 31, 2013, primarily for payment of $1,780,000 toward the purchase of the noncontrolling interest in a subsidiary, repayment of short-term borrowing of $1,896,000, and cash dividends of $260,000 paid to stockholders, partially offset by a net increase in long-term debt of $1,496,000.

Outlook

The Company s ability to predict future demand for its products continues to be limited given its role as subcontractor or supplier to dealers for subcontractors. Demand for the Company s products is also dependent upon the number of laboratory construction projects planned and/or current progress in projects already under construction. The Company s earnings are also impacted by fluctuations in prevailing pricing for projects in the laboratory construction marketplace and increased costs of raw materials, including stainless steel, wood, and epoxy resin, and whether the Company is able to increase product prices to customers in amounts that correspond to such increases without materially and adversely affecting sales. Additionally, since prices are normally quoted on a firm basis in the industry, the Company bears the burden of possible increases in labor and material costs between the quotation of an order and delivery of a product. The Company is also unable to predict the timing and strength of the global economic recovery and its short-term and long-term impact on the Company s operations and the markets in which it competes. Looking forward, the Company expects fiscal year 2015 to be a profitable year for the Company.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

This report contains statements that the Company believes to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in this report, including statements regarding the Company s future financial condition, results of operations, business operations and business prospects, are forward-looking statements. Words such as anticipate, estimate, expect, proje intend, plan, predict, believe and similar words, expressions and variations of these words and expressions are intended to identify forward-looking statements. All forward-looking statements are subject to important factors, risks, uncertainties and assumptions, including industry and economic conditions that could cause actual results to differ materially from those described in the forward-looking statements. Such factors, risks, uncertainties and assumptions include, but are not limited to, competitive and general economic conditions, both domestically and internationally; changes in customer demands; dependence on customers required delivery schedules; risks related to fluctuations in the Company s operating results from quarter to quarter; risks related to international operations, including foreign currency fluctuations; changes in the legal and regulatory environment; changes in raw materials and commodity costs; and acts of terrorism, war, governmental action, natural disasters and other Force Majeure events. Many important factors that could cause such a difference are described under the caption Risk Factors in Item 1A in the Company s 2014 Annual Report on Form 10-K. These forward-looking statements speak only as of the date of this document. The Company assumes no obligation, and expressly disclaims any obligation, to update any forward-looking statements, whether as a result of new information, future events or otherwise.

REVIEW BY INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

A review of the interim consolidated financial information included in this Quarterly Report on Form 10-Q for each of the three month periods ended July 31, 2014 and July 31, 2013 has been performed by Cherry Bekaert LLP, the Company s independent registered public accounting firm. Their report on the interim consolidated financial information follows.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have reviewed the accompanying consolidated balance sheet of Kewaunee Scientific Corporation and its subsidiaries (the Company ) as of July 31, 2014, the related consolidated statements of operations, comprehensive income, and cash flows for the three-month periods ended July 31, 2014 and 2013, and the related consolidated statement of stockholders equity for the three-month period ended July 31, 2014. These interim consolidated 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 (United States), 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 interim consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of April 30, 2014, and the related consolidated statements of operations, comprehensive income and stockholders equity, and cash flows for the year then ended (not presented herein) and in our report dated July 17, 2014, 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 April 30, 2014 is fairly stated in all material respects in relation to the consolidated financial statement from which it has been derived.

/s/ Cherry Bekaert LLP
Charlotte, North Carolina
September 10, 2014

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There are no material changes to the disclosures made on this matter in the Company s Annual Report on Form 10-K for the fiscal year ended April 30, 2014.

**Item 4. Controls and Procedures**

(a) Evaluation of disclosure controls and procedures

An evaluation was performed under the supervision and the participation of the Company s management, including the Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of July 31, 2014. Based on that evaluation, the Company s management, including the CEO and CFO, concluded that, as of July 31, 2014, the Company s disclosure controls and procedures were adequate and effective and designed to ensure that all material information required to be filed in this quarterly report is made known to them by others within the Company and its subsidiaries.

(b) Changes in internal controls

There was no significant change in the Company s internal control over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

**Item 6. Exhibits**

| | |
|---|---|
| 3.1 | Bylaws (As amended as of August 27, 2014) [1] |
| 10.61B | Second Amendment to Credit and Security Agreement dated June 10, 2014 [2] |
| 10.65* | Fiscal Year 2015 Incentive Bonus Plan [2] |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

* The referenced exhibit is a management contract or compensatory plan or arrangement.

[1] Filed as an exhibit to the Kewaunee Scientific Corporation Current Report on Form 8-K (Commission File No. 0-5286) filed on September 2, 2014 and incorporated herein by reference.

[2] Filed as an exhibit to the Kewaunee Scientific Corporation Current Report on Form 10-K (Commission File No. 0-5286) for the fiscal year ended April 30, 2014 and incorporated herein by reference.

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SIGNATURE

Pursuant to the requirements 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.

KEWAUNEE SCIENTIFIC CORPORATION

(Registrant)

Date: September 10, 2014

By /s/ D. Michael Parker
D. Michael Parker

(As duly authorized officer and Senior Vice President, Finance and Chief Financial Officer)

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td>

| | | | | |
|---|---|---|---|---|
| Interest income | 1,927 | 7,682 | 6,187 | 24,701 |
| Warrant derivative liability income | - | - | - | 21,413 |
| Other than temporary impairment of available-for-sale securities | - | (126,080) | - | (584,618) |
| Interest expense | (71,019) | (19,429) | (387,353) | (196,375) |
| Total other expense, net | (69,092) | (137,827) | (381,166) | (734,879) |
| Income before income taxes | 1,853,610 | 2,747,948 | 3,008,474 | 3,012,858 |
| Income tax expense | (1,061,451) | (1,502,417) | (1,470,670) | (1,641,543) |
| Net income | 792,159 | 1,245,531 | 1,537,804 | 1,371,315 |
| Other comprehensive income: | | | | |
| Unrealized gain on available-for-sale securities | - | 20,427 | - | - |
| Total comprehensive income | $792,159 | $1,265,958 | $1,537,804 | $1,371,315 |
| Earnings per share: | | | | |
| Basic | $0.03 | $0.05 | $0.06 | $0.06 |

| | | | | |
|---|---|---|---|---|
| Diluted | $0.03 | $0.05 | $0.06 | $0.06 |
| Weighted average number of common shares: | | | | |
| Basic | 24,280,077 | 23,750,068 | 24,156,483 | 23,681,188 |
| Diluted | 26,584,201 | 24,620,768 | 26,354,761 | 24,748,108 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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INTERCLICK, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

| | Common Stock | | Additional Paid-In | Accumulated | Total Stockholders' |
|---|---|---|---|---|---|
| | Shares | Amount | Capital | Deficit | Equity |
| Balances, January 1, 2011 | 24,065,611 | $24,065 | $46,626,284 | $ (9,233,876 ) | $ 37,416,473 |
| Stock-based compensation | | | 3,599,545 | | 3,599,545 |
| Issuances of restricted shares | 542,500 | 543 | (543 ) | | - |
| Forefiture of restricted shares | (1,900 ) | (2 ) | 2 | | - |
| Issuance of common shares for stock options and warrants exercised | 245,293 | 245 | 632,657 | | 632,902 |
| Cashless exercise of warrants | 21,495 | 21 | (21 ) | | - |
| Adjustment to additional paid-in capital related to tax benefit of stock-based compensation | | | 60,539 | | 60,539 |
| Net income | | | | 1,537,804 | 1,537,804 |
| Balances, September 30, 2011 (unaudited) | 24,872,999 | $24,872 | $50,918,463 | $ (7,696,072 ) | $ 43,247,263 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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INTERCLICK, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Nine Months Ended September 30, 2011 (unaudited) | For the Nine Months Ended September 30, 2010 (unaudited) |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 1,537,804 | $ 1,371,315 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Stock-based compensation | 3,599,545 | 2,800,566 |
| Other than temporary impairment of available-for-sale securities | - | 584,618 |
| Accrued interest income | (4,051) | - |
| Depreciation and amortization of property and equipment | 722,079 | 502,726 |
| Amortization of intangible assets | 237,142 | 118,500 |
| Provision for bad debts | 222,434 | 103,241 |
| Amortization of deferred line of credit costs | 46,996 | 8,243 |
| Deferred tax benefit | (274,411) | (412,327) |
| Change in warrant derivative liability | - | (21,413) |
| Excess tax benefits from stock-based compensation | (60,539) | - |
| Changes in cash and cash equivalents attributable to changes in operating assets and liabilities: | | |
| Accounts receivable | 5,506,522 | (8,607,026) |
| Prepaid expenses and other current assets | (1,616,571) | (9,903) |
| Other assets | 49,011 | (15,394) |
| Accounts payable | (3,618,047) | 1,898,976 |
| Accrued expenses | (77,936) | 25,564 |
| Deferred rent | (45,274) | 548,141 |
| Other liabilities | (48,813) | - |
| Income taxes payable | - | 275,069 |
| Net cash provided by (used in) operating activities | 6,175,891 | (829,104) |
| | | |
| Cash flows from investing activities: | | |
| Proceeds from sale of available-for-sale securities | - | 11,250 |
| Transfers to restricted cash | - | (1,294,187) |
| Purchases of property and equipment | (381,063) | (659,425) |
| Costs incurred for development of internal-use software | (1,386,567) | - |
| Net cash used in investing activities | (1,767,630) | (1,942,362) |
| | | |
| Cash flows from financing activities: | | |
| Proceeds from current line of credit | - | 5,200,000 |
| Repayments of current line of credit, net | (4,500,000) | - |
| Repayments of former line of credit, net | - | (4,208,667) |
| Proceeds from stock options and warrants exercised | 632,902 | 336,707 |
| Payments of deferred line of credit costs | - | (88,341) |

| | | | | |
|---|---|---|---|---|
| Principal payments on capital leases | | (540,662) | | (130,178) |
| Excess tax benefits from stock-based compensation | | 60,539 | | - |
| Net cash provided by (used in) financing activities | | (4,347,221) | | 1,109,521 |
| Net increase (decrease) in cash and cash equivalents | | 61,040 | | (1,661,945) |
| Cash and cash equivalents at beginning of period | | 12,450,650 | | 12,653,958 |
| Cash and cash equivalents at end of period | $ | 12,511,690 | $ | 10,992,013 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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INTERCLICK, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Nine Months Ended September 30, 2011 (unaudited) | For the Nine Months Ended September 30, 2010 (unaudited) |
|---|---|---|
| Supplemental disclosure of cash flow information: | | |
| Interest paid | $350,467 | $232,447 |
| Income taxes paid | $3,036,446 | $1,693,535 |
| | | |
| Non-cash investing and financing activities: | | |
| Property and equipment acquired through capital leases | $1,552,260 | $495,600 |
| Leasehold improvements increased for deferred rent | $- | $83,070 |
| Reclassification of warrant derivative liability to equity upon expiration of price protection | $- | $47,846 |
| Deferred line of credit costs included in accrued expenses | $- | $37,500 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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INTERCLICK, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Unaudited)

## Note 1. Nature of Operations

### Overview

Powered by OSM, interclick, inc. (the "Company" or "interclick") offers proprietary data-valuation capabilities combining analytical expertise and media fulfillment to help marketers navigate the complex data ecosystem to drive successful online display and video campaigns. OSM is a powerful solution which aggregates and organizes billions of data points from 3rd party providers – delivering actionable consumer insights, scalable audiences and the most effective campaign execution. The Company generates revenue by serving as a principal in transacting online display and online video advertising between agency clients and third party website publishers. Substantially all of the Company's revenues are generated in the United States.

The Company is particularly sensitive to industry seasonality given that the majority of its revenues are tied to CPM (cost-per-thousand) campaigns, which are strongest in the fourth quarter and weakest in the first quarter. While not necessarily indicative of future seasonality, the Company's revenue mix in 2010 was as follows: 14.0% in the first quarter, 21.4% in the second quarter, 26.1% in the third quarter, and 38.5% in the fourth quarter.

### Basis of Presentation

The interim condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). In the opinion of the Company's management, all adjustments (consisting of normal recurring adjustments and reclassifications and non-recurring adjustments) necessary to present fairly our results of operations and comprehensive income for the three and nine months ended September 30, 2011 and 2010, our statement of changes in stockholders' equity for the nine months ended September 30, 2011, cash flows for the nine months ended September 30, 2011 and 2010, and our financial position as of September 30, 2011, have been made. The results of operations for such interim periods are not necessarily indicative of the operating results to be expected for the full year.

Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or omitted from these interim consolidated financial statements. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2010, as filed with the SEC on March 22, 2011. The December 31, 2010 consolidated balance sheet is derived from those statements.

## Note 2. Significant Accounting Policies

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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 those

estimates. On an ongoing basis, we evaluate our estimates, including those related to the accounts receivable and allowance for doubtful accounts, intangible assets and goodwill, useful lives of intangible assets and property and equipment, fair values of stock-based awards, income taxes, and contingent liabilities, among others.

Principles of Consolidation

The interim condensed consolidated financial statements include the accounts of interclick, inc. and its wholly-owned subsidiary. All significant inter-company balances and transactions have been eliminated in consolidation.

INTERCLICK, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Unaudited)

Accounts Receivable and Allowance for Doubtful Accounts Receivable

Trade accounts receivables are non-interest bearing and are stated at gross invoice amounts less an allowance for doubtful accounts receivable.

Credit is extended to customers based on an evaluation of their financial condition and other factors. The Company generally does not require collateral or other security to support accounts receivable. The Company performs ongoing credit evaluations of its customers and maintains an allowance for doubtful accounts.

The Company estimates its allowance for doubtful accounts by evaluating specific accounts where information indicates the customers may have an inability to meet financial obligations, such as bankruptcy proceedings and receivable amounts outstanding for an extended period beyond contractual terms. In these cases, the Company uses assumptions and judgment, based on the best available facts and circumstances, to either record a specific allowance against these customer balances or to write the balances off. In addition, the Company calculates an overall reserve based on a percentage of the overall gross accounts receivable. This percentage is based on management's assessment of the aging of accounts receivable, historical write-offs of receivables and the associated risk profile of the Company's customer base.

The Company's customer agreements are primarily entered into with agencies which manage campaigns on behalf of brand advertisers. Such agreements are governed by Standard Terms and Conditions for Internet Advertising as prescribed by the Interactive Advertising Bureau. Under these agreements, the Company holds the agency liable for payments to the extent proceeds have cleared from the advertiser to the agency for campaigns placed in accordance with the agreement. For sums not cleared to the agency, the Company may hold the advertiser solely liable. Write-offs of accounts receivable are taken in the period when the Company has exhausted its efforts to collect overdue and unpaid receivables or otherwise has evaluated other circumstances that indicate that the Company should abandon such efforts.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided for on a straight-line basis over the estimated useful lives of the assets per the following table. Leasehold improvements are amortized over the lesser of the estimated useful life or the term of the underlying lease. Expenditures for additions and improvements are capitalized while repairs and maintenance are expensed as incurred.

The following table reflects the estimated useful lives of the various categories of property and equipment:

| Category | Depreciation Term |
|---|---|
| Computer equipment | 3-5 years |
| Software | 3 years |
| Furniture and fixtures | 3-5 years |

| | |
|---|---|
| Office equipment | 3-5 years |
| Leasehold improvements | 5 years |

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INTERCLICK, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Unaudited)

Intangible Assets

The Company records the purchase of intangible assets not acquired in a business combination in accordance with Accounting Standards Codification ("ASC") Topic 350 "Intangibles - Goodwill and Other" and records intangible assets acquired in a business combination in accordance with ASC Topic 805 "Business Combinations".

Customer relationships were fully amortized as of December 31, 2009 and were amortized based upon the estimated percentage of annual or period projected cash flows generated by such relationships, to the total cash flows generated over the estimated three-year life of the customer relationships. Developed technology is being amortized on a straight-line basis over five years. The domain name was amortized over its remaining useful life of six months at its acquisition date in August 2007.

Expenditures for software developed for internal use are capitalized and amortized over a three-year period on a straight-line basis. For software developed for internal use, the Company capitalizes costs in accordance with the provisions of ASC 350-40 "Internal Use Software." The Company's policy provides for the capitalization of external direct costs of materials and services associated with developing or obtaining internal-use software. In addition, the Company also capitalizes certain payroll and payroll-related costs for employees who are directly associated with internal use software projects. The amount of capitalizable payroll costs with respect to these employees is limited to the time directly spent on such projects. Costs associated with preliminary project state activities, training, maintenance and all other post-implementation stage activities are expensed as incurred. The Company also expenses internal costs related to minor upgrades and enhancements related activities, as it is impractical to separate these costs from normal maintenance activities. Internal-use software is being amortized over three years.

Revenue Recognition

Revenues consist of amounts charged to customers, net of discounts and credits, for serving advertising impressions, click-throughs or other actions placed on our publisher vendor's websites. The Company's revenue is recognized in the period that the advertising impressions, click-throughs or actions occur, when lead-based information is delivered or, provided that no significant Company obligations remain, collection of the resulting receivable is reasonably assured, and prices are fixed or determinable. The Company recognizes revenue when the following criteria have been met: (i) persuasive evidence of an arrangement exists, (ii) the fees are fixed or determinable, (iii) no significant Company obligations remain, and (iv) collection of the related receivable is reasonably assured.

Recently Issued Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2011-08, "Intangibles — Goodwill and Other," ("ASU 2011-08"), which amends current guidance to allow a company to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. The amendment also improves previous guidance by expanding upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Accordingly, the Company will adopt ASU 2011-08 beginning in the first quarter of fiscal year ending December 31, 2012. The impact of the adoption of ASU 2011-08 has not yet been evaluated.

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income," ("ASU 2011-05"), which requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. ASU 2011-05 is effective for fiscal years and interim periods beginning after December 15, 2011. Accordingly, the Company will adopt ASU 2011-05 beginning in the first quarter of fiscal year ending December 31, 2012. The adoption of this updated disclosure guidance is not expected to have a material impact upon the Company's financial position and results of operations.



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INTERCLICK, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Unaudited)

Note 3. Property and Equipment

Property and equipment consisted of the following at September 30, 2011 and December 31, 2010:

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Computer equipment | $ 4,593,070 | $ 2,926,114 |
| Furniture and fixtures | 327,106 | 195,597 |
| Software | 222,629 | 183,207 |
| Leasehold improvements | 252,097 | 173,764 |
| Office equipment | 39,547 | 22,443 |
| | 5,434,449 | 3,501,125 |
| Accumulated depreciation and amortization | (1,939,483) | (1,217,404) |
| Property and equipment, net | $ 3,494,966 | $ 2,283,721 |

Property and equipment held under capitalized leases of $3,180,464 and $1,628,203 at September 30, 2011 and December 31, 2010, respectively, are included in computer equipment above.

Depreciation and amortization expense for the nine months ended September 30, 2011 and 2010 was $722,079 and $502,726, respectively, of which $405,100 and $129,775 pertained to capitalized leases. Accumulated depreciation and amortization related to capitalized leases amounted to $604,126 and $199,026 as of September 30, 2011 and December 31, 2010, respectively.

Note 4. Intangible Assets

Intangible assets consisted of the following at September 30, 2011 and December 31, 2010:

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Customer relationships | $ 540,000 | $ 540,000 |
| Developed technology | 790,000 | 790,000 |
| Internal-use software | 1,386,567 | - |
| Domain name | 683 | 683 |
| | 2,717,250 | 1,330,683 |
| Accumulated amortization | (1,304,492) | (1,067,350) |
| Intangible assets, net | $ 1,412,758 | $ 263,333 |

The following is a schedule of estimated future amortization expense of intangible assets as of September 30, 2011:

| Year Ending December 31, | |
|---|---|
| 2011 | $ 155,032 |
| 2012 | 567,462 |
| 2013 | 462,129 |
| 2014 | 228,135 |
| Total | $ 1,412,758 |

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INTERCLICK, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Unaudited)

Note 5. Commitments and Contingencies

Minimum Fees

The Company is party to multi-year agreements with third parties whereby the Company is obligated to pay minimum publisher, data and ad verification fees of approximately $3,933,000 for the remainder of 2011, $757,000 in 2012 and $50,000 in 2013. The Company expensed approximately $14,622,000 and $1,698,000 in fees under these agreements for the nine months ended September 30, 2011 and 2010, respectively.

Legal Matters

On or about December 8, 2010, Sonal Bose commenced an action in the United States District Court for the Southern District of New York (Sonal Bose v. Interclick, Inc., Case No. 10 Civ. 9183-DAB (S.D.N.Y.)) alleging that interclick engaged in certain activities that plaintiff claims violate electronic privacy and computer use laws. The plaintiff asserts federal and state law claims, and seeks compensatory, statutory, and punitive damages, restitution, and reimbursement of expenses and attorney's fees. The plaintiff also seeks injunctive and declaratory relief and class action certification.

Plaintiff also had brought a related action in the United States District Court for the Southern District of New York against certain of our advertisers, which has been voluntarily dismissed as a separate action now that plaintiff has filed an Amended Complaint naming the advertisers as defendants in the action against the Company. The Company provided for the defense of the advertisers.

On August 17, 2011, ruling on the Company's and the advertisers' motions to dismiss the Amended Complaint, the Court dismissed the sole remaining federal claim alleging violation of the Computer Fraud and Abuse Act and the state law claims for breach of implied contract and tortious interference with prejudice, and dismissed all claims against the advertisers with prejudice. The only remaining claims are claims against the Company for trespass to chattels and under New York's Consumer Protection Law (General Business Law Section 349).

On September 16, 2011, the Company filed an Answer to the Amended Complaint, denying plaintiff's claims. As previously noted, the Company believes the case is entirely without merit and intends to vigorously defend its prior practices and technology.

There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial stockholder, is an adverse party or has a material interest adverse to our interest.

Note 6. Stockholders' Equity

Preferred Stock

The Company is authorized to issue up to 10,000,000 shares of preferred stock having a par value of $0.001 per share, of which none was issued and outstanding at September 30, 2011 and December 31, 2010.

Common Stock

The Company is authorized to issue up to 140,000,000 shares of common stock having a par value of $0.001 per share, of which 24,872,999 and 24,065,611 shares were issued and outstanding at September 30, 2011 and December 31, 2010, respectively.

During the nine months ended September 30, 2011, proceeds of $632,902 were received and an aggregate of 245,293 shares were issued as a result of stock option and warrant exercises.

INTERCLICK, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Unaudited)

Stock Warrants

On April 15, 2010, as part of a consulting agreement, the Company issued to an investor relations firm a three-year warrant to purchase 25,000 shares of common stock exercisable at $4.44 per share for services to be rendered over a 12-month period. Accordingly, the Company has recognized stock-based compensation of $35,094 for the nine months ended September 30, 2011.

A summary of the Company's warrant activity during the nine-months ended September 30, 2011 is presented below:

| Warrants | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Balance Outstanding, December 31, 2010 | 873,219 | $ 3.67 | | |
| Granted | - | | | |
| Exercised | (65,225 ) | $ 3.99 | | |
| Forfeited | - | | | |
| Expired | - | | | |
| Balance Outstanding, September 30, 2011 | 807,994 | $ 3.64 | 1.11 | $ 1,541,866 |
| Exercisable, September 30, 2011 | 807,994 | $ 3.64 | 1.11 | $ 1,541,866 |

Stock Incentive Plan and Stock Option Grants to Employees and Directors

On June 23, 2011, the shareholders of the Company ratified and approved the adoption of the 2011 Equity Incentive Plan (the "2011 Award Plan"). The 2011 Award Plan provides for the grant of up to 1,722,760 shares of common stock and/or stock options to purchase shares of common stock (422,760 of which were transferred from the 2007 Incentive Stock and Award Plan (the "2007 Award Plan") to directors, employees and consultants. In connection with the adoption of the 2011 Award Plan, the Company will no longer grant any stock-based awards under the 2007 Award Plan.

The material terms of each option granted pursuant to the 2011 Award Plan shall contain the following terms: (i) that the purchase price of each share purchasable under an option shall not be less than 100% of the fair market value (as defined in the 2011 Award Plan) of such common share on the day prior to the date the option is granted, (ii) the term of each option shall be fixed, but no option shall be exercisable more than 10 years after the date such option is granted and (iii) in the absence of any option vesting periods at the time of grant, options shall vest and become exercisable as to one-third of the total number of shares subject to the option on each of the first, second and third anniversaries of the date of grant. Upon exercise of stock options, the Company will issue new common shares from the pool of authorized, unissued shares of the Company.

During the nine months ended September 30, 2011, the Company granted 712,000 stock options, 481,000 of which were issued under the 2007 Award Plan and 231,000 of which were issued under the 2011 Award Plan, at various exercise prices ranging from $5.01 to $8.90 per share. The options granted vest pro rata over three years; all options expire ten years from the grant date.

As of September 30, 2011, 1,392,593 shares were remaining under the 2011 Award Plan for future issuance.

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INTERCLICK, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Unaudited)

The total fair value of stock options granted to employees and directors during the nine months ended September 30, 2011 was $3,451,488, which is being recognized over the respective vesting periods. The Company recorded stock-based compensation expense of $454,248 for the nine months ended September 30, 2011 in connection with these stock options.

The Company estimates the fair value of share-based compensation utilizing the Black-Scholes option pricing model, which is dependent upon several variables such as the expected option term, expected volatility of our stock price over the expected life, expected risk-free interest rate over the expected option term, expected dividend yield rate over the expected option term, and an estimate of expected forfeiture rates. The Company believes this valuation methodology is appropriate for estimating the fair value of stock options granted to employees and directors which are subject to ASC Topic 718 "Compensation – Stock Compensation" requirements. These amounts are estimates and thus may not be reflective of actual future results, nor amounts ultimately realized by recipients of these grants. The Company recognizes compensation on a straight-line basis over the requisite vesting period for each award. The following table summarizes the assumptions the Company utilized to record compensation expense for stock options granted during the nine months ended September 30, 2011 and 2010:

| Assumptions | For the Nine Months Ended September 30, 2011 | For the Nine Months Ended September 30, 2010 |
|---|---|---|
| Expected life (years) | 6.0 | 3.5 - 3.75 |
| Expected volatility | 89.3% - 95.6% | 98.6% - 110.1% |
| Weighted-average volatility | 92.7% | 105.10% |
| Risk-free interest rate | 1.10% - 2.66% | 0.069% - 2.69% |
| Dividend yield | 0.00% | 0.00% |

For stock options issued through September 30, 2009, the expected life is based on the contractual term. Thereafter, the Company utilized the simplified method to estimate the expected life for stock options granted to employees and directors. The simplified method was used as the Company does not have sufficient historical data regarding stock option exercises. The expected volatility is based on historical volatility. The risk-free interest rate is based on the U.S. Treasury yields with terms equivalent to the expected life of the related option at the time of the grant. Dividend yield is based on historical trends. While the Company believes these estimates are reasonable, the compensation expense recorded would increase if the expected life was increased, a higher expected volatility was used, or if the expected dividend yield increased.

A summary of the Company's stock option activity under the Award Plans for employees and directors during the nine months ended September 30, 2011 is presented below:

| Options | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining | Aggregate Intrinsic Value |
|---|---|---|---|---|

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | Contractual Term | | |
| Balance Outstanding, December 31, 2010 | 5,134,792 | $ | 2.94 | | | |
| Granted | 712,000 | $ | 6.39 | | | |
| Exercised | (210,293 ) | $ | 2.58 | | | |
| Forfeited | (118,205 ) | $ | 4.51 | | | |
| Expired | (5,003 ) | $ | 5.14 | | | |
| Balance Outstanding, September 30, 2011 | 5,513,291 | $ | 3.36 | 3.2 | $ | 12,281,445 |
| | | | | | | |
| Exercisable, September 30, 2011 | 3,377,855 | $ | 2.62 | 2.0 | $ | 9,605,820 |
| | | | | | | |
| Outstanding, Exercisable and Expected to Vest at September 30, 2011 | 5,435,049 | $ | 3.33 | 3.2 | $ | 12,231,524 |

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INTERCLICK, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Unaudited)

The balance of options outstanding at December 31, 2010 in the table above includes awards granted under the 2007 Award Plan and the 2007 Equity Incentive Plan, under which there were no shares available for future issuance. The table above excludes 150,000 options granted to a director of the Company on September 29, 2009, at a strike price of $2.40 that had been granted outside of the 2007 Award Plan and 2007 Equity Incentive Plan.

The weighted-average grant-date fair value of options granted to employees during the nine months ended September 30, 2011 and 2010 was $4.85 and $2.85, respectively. The total intrinsic value of options exercised by employees during the nine months ended September 30, 2011 and 2010 was $864,678 and $138,401, respectively.

During the nine months ended September 30, 2011 and 2010, the Company recognized an aggregate amount of $2,878,567 and $2,535,868, respectively, of stock-based compensation for options granted.

Nonvested Common Stock Grants to Employees and Directors

On August 13, 2011, members of the Board of Directors were granted an aggregate of 150,000 shares of restricted common stock, under the 2011 Award Plan, having a fair value of $816,755 (based on a quoted trading price of $5.50 per share) that will vest in one-third installments on an annual basis. Accordingly, the Company has recognized stock-based compensation of $36,482 for the nine months ended September 30, 2011.

On March 21, 2011, executive officers and members of the Board of Directors were granted an aggregate of 387,500 shares of restricted common stock, under the 2007 Award Plan, having a fair value of $2,344,375 (based on a quoted trading price of $6.05 per share) that will vest in one-third installments on an annual basis. Accordingly, the Company has recognized stock-based compensation of $425,119 for the nine months ended September 30, 2011.

During the nine months ended September 30, 2011 and 2010, the Company recognized an aggregate amount of $528,795 and $84,933, respectively, of stock-based compensation for nonvested shares of common stock issued to employees and directors.

| Nonvested Shares | Number of Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Nonvested at December 31, 2010 | 46,198 | $ 4.36 |
| Granted | 542,500 | $ 5.90 |
| Vested | (7,173 ) | $ 2.85 |
| Forfeited | (1,900 ) | $ 5.21 |
| Nonvested at September 30, 2011 | 579,625 | $ 5.82 |

The total fair value of shares vested to employees during the nine months ended September 30, 2011 and 2010 was $46,969 and $79,078, respectively.

As of September 30, 2011, there was $2,816,988 of total unrecognized compensation costs related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 2.52 years.

Other Stock-Based Option Awards to Nonemployees

On March 21, 2011, 5,000 restricted shares of common stock were granted to an advisor and will vest on March 21, 2012. Accordingly, the Company has recognized stock-based compensation of $14,669 for the nine months ended September 30, 2011.

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As of September 30, 2011, there were 90,000 options outstanding out of 150,000 options granted in July 2009 to advisors. The options were granted outside of the 2007 Award Plan and 2007 Equity Incentive Plan, have an exercise price of $2.48, and vest quarterly through March 2013.

Note 7. Earnings per Share

Components of basic and diluted earnings per share for the three and nine months ended September 30, 2011 and 2010 were as follows:

| | For the Three Months Ended September 30, 2011 | | |
|---|---|---|---|
| | Income (Numerator) | Shares (Denominator) | Per-Share Amount |
| Net income | $ 792,159 | | |
| | | | |
| Basic EPS | | | |
| Income available to common stockholders | $ 792,159 | 24,280,077 | $ 0.03 |
| | | | |
| Effect of dilutive securities | | | |
| Stock options | | 1,858,391 | |
| Stock warrants | | 352,576 | |
| Nonvested shares | | 93,157 | |
| | | | |
| Diluted EPS | | | |
| Income available to common stockholders + assumed conversions | $ 792,159 | 26,584,201 | $ 0.03 |

| | For the Three Months Ended September 30, 2010 | | |
|---|---|---|---|
| | Income (Numerator) | Shares (Denominator) | Per-Share Amount |
| Net income | $ 1,245,531 | | |
| | | | |
| Basic EPS | | | |
| Income available to common stockholders | $ 1,245,531 | 23,750,068 | $ 0.05 |
| | | | |
| Effect of dilutive securities | | | |
| Stock options | - | 732,843 | |
| Stock warrants | - | 129,860 | |
| Nonvested shares | - | 7,997 | |
| | | | |
| Diluted EPS | | | |

| | | | | | |
|---|---|---|---|---|---|
| Income available to common stockholders + assumed conversions | $ | 1,245,531 | 24,620,768 | $ | 0.05 |

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(Unaudited)

| | For the Nine Months Ended September 30, 2011 | | |
|---|---|---|---|
| | Income (Numerator) | Shares (Denominator) | Per-Share Amount |
| Net income | $ 1,537,804 | | |
| Basic EPS | | | |
| Income available to common stockholders | $ 1,537,804 | 24,156,483 | $ 0.06 |
| Effect of dilutive securities | | | |
| Stock options | - | 1,786,971 | |
| Stock warrants | - | 359,269 | |
| Nonvested shares | - | 52,038 | |
| Diluted EPS | | | |
| Income available to common stockholders + assumed conversions | $ 1,537,804 | 26,354,761 | $ 0.06 |

| | For the Nine Months Ended September 30, 2010 | | |
|---|---|---|---|
| | Income (Numerator) | Shares (Denominator) | Per-Share Amount |
| Net income | $ 1,371,315 | | |
| Basic EPS | | | |
| Income available to common stockholders | $ 1,371,315 | 23,681,188 | $ 0.06 |
| Effect of dilutive securities | | | |
| Stock options | - | 858,915 | |
| Stock warrants | - | 197,099 | |
| Nonvested shares | - | 10,906 | |
| Diluted EPS | | | |
| Income available to common stockholders + assumed conversions | $ 1,371,315 | 24,748,108 | $ 0.06 |

Options to purchase 725,500 and 766,500 shares of common stock were outstanding during the three and nine months ended September 30, 2011, respectively, but were not included in the computation of diluted earnings per share because the effects would have been anti-dilutive.

Options to purchase 2,797,500 and 2,053,750 shares of common stock and warrants to purchase 533,750 and 348,750 shares of common stock were outstanding during the three and nine months ended September 30, 2010, respectively,

but were not included in the computation of diluted earnings per share because the effects would have been anti-dilutive.  In addition, 46,300 nonvested common shares were not included in the computation of diluted earnings per share for the three and nine months ended September 30, 2010, because the number of shares assumed purchased (calculated using the compensation cost attributed to future services and not yet recognized) under the treasury stock method exceeds the number of shares that would be issued.



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Note 8. Income Taxes

Income tax expense amounting to $1,470,670 for the nine months ended September 30, 2011 is based on the Company's estimate of the effective tax rate expected to be applicable for the full year 2011. The effective tax rate of 48.9% for the nine months ended September 30, 2011 differs from the statutory federal rate principally because of the effect of state income taxes, non-deductible expenses and the application of a higher marginal tax rate to the Company’s opening deferred tax asset. The effective tax rate is based on the Company's best estimate of projected taxable income through the end of 2011.

Income tax expense amounting to $1,641,543 for the nine months ended September 30, 2010 is based on the Company's estimate of the effective tax rate expected to be applicable for the full year 2010. The effective tax rate of 54.5% for the nine months ended September 30, 2010 differs from the statutory federal rate principally because of the effect of state income taxes, a valuation allowance established on capital loss carryforwards and other non-deductible expenses. The effective rate is based on the Company's best estimate of projected net income through the end of 2010.

Note 9. Concentrations

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. Cash and cash equivalents are deposited in three financial institutions. The balance, at any given time, may exceed Federal Deposit Insurance Corporation insurance limits. As of September 30, 2011, there was approximately $915,000 in excess of FDIC insurable limits.

Concentration of Revenues, Accounts Receivable and Publisher Expense

For the three and nine months ended September 30, 2011 and 2010, the Company had concentrations of revenues with agency customers representing revenues equaling 10% or greater as follows:

| | For the Three Months Ended September 30, 2011 | For the Three Months Ended September 30, 2010 | For the Nine Months Ended September 30, 2011 | For the Nine Months Ended September 30, 2010 |
|---|---|---|---|---|
| Agency | 14.2% | Less than 10% | 12.0% | Less than 10% |
| Agency | Less than 10% | 10.0% | Less than 10% | Less than 10% |
| Agency | Less than 10% | Less than 10% | Less than 10% | 10.0% |

At September 30, 2011 and December 31, 2010, concentration of accounts receivable with individual agency customers representing 10% or greater of accounts receivable was as follows:

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Agency | 17.7% | Less than 10% |

| | | |
|---|---|---|
| Agency | Less than 10% | 13.8% |

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For the three and nine months ended September 30, 2011 and 2010, the Company made significant purchases of advertising impressions from a publisher with a percentage of total publisher expense (included in cost of revenues) equaling 10% or greater as follows:

| | For the Three Months Ended September 30, 2011 | For the Three Months Ended September 30, 2010 | For the Nine Months Ended September 30, 2011 | For the Nine Months Ended September 30, 2010 |
|---|---|---|---|---|
| Publisher | 30.5% | 31.4% | 26.9% | 30.8% |

Note 10. Subsequent Events

On November 1, 2011, the Company announced that it had entered into an Agreement and Plan of Merger, dated October 31, 2011 (the ‘’Merger Agreement”), with Yahoo! Inc. (“Yahoo”), a Delaware corporation and Innsbruck Acquisition Corporation (“Purchaser”), a Delaware corporation and a wholly-owned subsidiary of Yahoo. Pursuant to the Merger Agreement and upon the terms and subject to the conditions thereof, Purchaser will commence a tender offer (the “ Tender Offer) to acquire all the issued and outstanding shares of the common stock of the Company for $9.00 per share, net to the holder thereof in cash, without interest and subject to applicable withholding taxes. The Merger Agreement provides that, among other things, upon its terms and subjects to the satisfaction or written waiver of certain conditions, following completion of the Tender Offer, and in accordance with the applicable provisions of the Delaware General Corporation Law, Purchaser will be merged with and into the Company (the “Merger”), with the Company continuing as the surviving corporation in the Merger.

On November 8, 2011, a purported class action lawsuit was filed in the Supreme Court of the State of New York, New York County, under the caption Sam Elghanian, individually and on behalf of all others similarly situated v. interclick, inc. et al., Index No. 653101/2011. The plaintiff alleges that members of the Board of Directors breached their fiduciary duties by, amongst other things, agreeing to sell the Company for inadequate consideration. The lawsuit names the Company and the members of the Board of Directors as defendants and seeks, among other relief, an injunction over the proposed sale of the Company to Yahoo.

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

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and related notes appearing elsewhere in this report on Form 10-Q. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including but not limited to those set forth under "Risk Factors" in our Form 10-K/A for the year ended December 31, 2010, filed with the SEC on March 22, 2011.

This following discussion and analysis includes both financial measures in accordance with GAAP, as well as a non-GAAP financial measure, EBITDA. EBITDA represents operating income exclusive of interest, taxes, depreciation and amortization, including stock-based compensation, merger and related costs, and other income and expense of a non-operating nature. EBITDA should be viewed as supplemental to, and not as an alternative for, net income or loss, income or loss from operations or any other measure for determining operating performance or liquidity, as determined under GAAP. We have included a reconciliation of our non-GAAP financial measure to net income. See pages 8 & 12 of this report.

EBITDA is used by our management as an additional measure of our performance for purposes of business decision-making, including developing budgets and managing expenditures. Period-to-period comparisons of EBITDA helps our management identify additional trends in our financial results that may not be shown solely by period-to-period comparisons of net income or loss, or income or loss from operations. Our management recognizes that EBITDA has inherent limitations because of the excluded items, particularly those items that are recurring in nature.

We believe that the presentation of EBITDA is useful to investors in their analysis of our results for reasons similar to the reasons why our management finds it useful and because it helps facilitate investor understanding of decisions made by our management in light of the performance metrics used in making those decisions. In addition, we believe that providing EBITDA, together with a reconciliation to GAAP, helps investors make comparisons between interclick and other companies. In making any comparisons to other companies, investors need to be aware that companies use different non-GAAP measures to evaluate their financial performance. Investors should pay close attention to the specific definition being used and to the reconciliation between such measure and the corresponding GAAP measure provided by each company under applicable SEC rules.

Company Overview

Powered by OSM, interclick, inc. (the "Company" or "interclick") offers proprietary data-valuation capabilities combining analytical expertise and media fulfillment to help marketers navigate the complex data ecosystem to drive successful online display and video campaigns. OSM is a powerful solution which aggregates and organizes billions of data points from 3rd party providers – delivering actionable consumer insights, scalable audiences and the highly effective campaign execution. We generate our revenue by serving as a principal in transacting online display and online video advertising between agency clients and third party website publishers. Substantially all of the Company's revenues are generated in the United States.

interclick is particularly sensitive to seasonality given that the majority of its revenues are tied to CPM (cost-per-thousand) branded advertisers campaigns, which are strongest in the fourth quarter and weakest in the first quarter.

Significant events which affected our results of operations include:

- Revenues for the three months ended September 30, 2011 increased 36.8% to $36,177,567 from $26,442,854 for the three months ended September 30, 2010; revenues for the nine months ended September 30, 2011 increased 42.8% to $88,997,837 from $62,304,594 for the nine months ended September 30, 2010;

- Gross profit percentage for the three months ended September 30, 2011 was 41.4% as compared to 46.0% for the three months ended September 30, 2010; gross profit percentage for the nine months ended September 30, 2011 was 42.7% as compared to 45.2% for the nine months ended September 30, 2010;

- Operating expenses were 36.1% of revenue for the three months ended September 30, 2011 compared to 35.0% of revenue for the three months ended September 30, 2010; operating expenses were 38.9% of revenue for the nine months ended September 30, 2011 compared to 39.2% of revenue for the nine months ended September 30, 2010;

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- Headcount increased to 134 people at September 30, 2011 from 107 people at September 30, 2010;

- Operating income for the three months ended September 30, 2011 was $1,922,702 as compared to $2,885,775 for the three months ended September 30, 2010; operating income for the nine months ended September 30, 2011 was $3,389,640 as compared to $3,747,737 for the nine months ended September 30, 2010. Results in 2011 included approximately $519,000 relating to merger and related expenses;

- EBITDA (a non-GAAP measure) for the three months ended September 30, 2011 was $4,127,931 compared to $4,086,141 for the three months ended September 30, 2010; EBITDA for the nine months ended September 30, 2011 was $8,467,157 compared to $7,169,529 for the nine months ended September 30, 2010; and

- Net income for the three months ended September 30, 2011 was $792,159 or $0.03 per diluted share, compared net income of $1,245,531 or $0.05 per diluted share for the three months ended September 30, 2010. Net income for the nine months ended September 30, 2011 was $1,537,804 or $0.06 per diluted share, compared to $1,371,315 or $0.06 per diluted share for the nine months ended September 30, 2010. Results for the three months ended September 30, 2011 included an income tax expense of $1,061,451, compared to an income tax expense of $1,502,417 for the three months ended September 30, 2010 and an other than temporary impairment of available-for-sale securities of $126,080. Results for the nine months ended September 30, 2011 included an income tax expense of $1,470,670. Results for the nine months ended September 30, 2010 included an income tax expense of $1,641,543 and an other than temporary impairment of available-for-sale securities of $584,618.

Results of Operations

Three Months Ended September 30, 2011 Compared with Three Months Ended September 30, 2010

Revenues

| | 2011 | 2010 | Period-over-Period $ Change | Period-over-Period % Change |
|---|---|---|---|---|
| Revenues | $ 36,177,567 | $ 26,442,854 | $ 9,734,713 | 36.8 % |

Our revenue growth is attributed primarily to the continued increase in the number of advertisers seeking interclick's online solutions, including a video advertising platform introduced in the first quarter of 2011 and a greater number of advertising impressions sold.

The continued overall growth in online advertising, the ongoing enhancements to our technology platforms, new product innovations, our ability to acquire quality advertising impressions from publishers, and our effectiveness at providing data integrations across campaigns and analytical insights to our clients, gives us confidence we will continue to increase our revenues on a year-over-year basis for the foreseeable future.

Cost of Revenues and Gross Profit

| | 2011 | 2010 | Period-over-Period $ Change | Period-over-Period % Change |
|---|---|---|---|---|
| Cost of revenues | $ 21,194,956 | $ 14,292,265 | $ 6,902,691 | 48.3 % |

| Percentage of revenues | 58.6 | % | 54.0 | % |
|---|---|---|---|---|

The increase in our cost of revenues is primarily attributable to the continued growth in advertising campaigns requiring the purchase of appropriate levels of advertising impressions from publishers. Cost of revenues is comprised primarily of the amounts paid for advertising impressions, third-party data, ad verification, privacy notification, rich media and ad serving expenses directly associated with given campaigns. The increase in cost of revenues as a percentage of revenue is primarily attributable to higher advertising impressions (including video), and data fees. Changes in cost of revenues as a percentage of revenue in any given period are also a function of the mix of advertising campaigns and general market conditions.

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| | 2011 | 2010 | Period-over-Period $ Change | Period-over-Period % Change |
|---|---|---|---|---|
| Gross profit | $ 14,982,611 | $ 12,150,589 | $ 2,832,022 | 23.3 % |
| Percentage of revenues | 41.4 % | 46.0 % | | |

The overall increase in gross profit is the primary result of the increase in revenue, largely offset by higher cost of revenues. The decrease in gross profit as a percentage of revenue is attributable to higher year-over-year growth in cost of revenues as compared to the growth in revenues. We expect gross margin percentages will range in the mid to low 40's over the next 12 months due to general market conditions, seasonal fluctuations and varying costs in connection with the dynamic mix of advertising campaigns, data, ad verification and privacy notification efforts.

Operating Expenses

Operating expenses consist of general and administrative, sales and marketing, technology support, and amortization of intangible assets. These are discussed in further detail below. Total operating expenses increased to $13,059,909 for the three months ended September 30, 2011, from $9,264,814 for the three months ended September 30, 2010, an increase of $3,795,095 or 41.0%. The increase was primarily due to headcount expansion from 107 employees as of September 30, 2010 to 134 employees as of September 30, 2011 (an increase of 25%) and higher compensation, higher sales related expenses, license fees and increased overhead expenditures necessary to support interclick's increased business, ongoing product innovation initiatives, including our new audience recommendation engine Genome powered by OSMTM ("Genome"), and costs associated with merger and related activities of approximately $519,000. These increases were partially offset by the capitalization of approximately $377,000 of internal-use software costs during the period (discussed further below). As a percentage of revenues, operating expenses increased to 36.1% for the three months ended September 30, 2011, from 35.0% for the three months ended September 30, 2010. The majority of hiring was in the operations, technology, product and sales areas to support the growth of our business and the ongoing innovation, development and marketing of our technology platform, including OSM. We expect to continue hiring at a slower pace than year-over-year revenue growth for the remainder of 2011.

General and Administrative

| | 2011 | 2010 | Period-over-Period $ Change | Period-over-Period % Change |
|---|---|---|---|---|
| General and administrative | $ 6,356,141 | $ 4,143,866 | $ 2,212,275 | 53.4 % |
| Percentage of revenues | 17.6 % | 15.7 % | | |

General and administrative expenses consist primarily of executive, finance, administrative, operations and product support compensation (including stock-based compensation), facilities costs, depreciation, professional fees, licenses, insurance, and other expenses. The increase in general and administrative expenses is primarily attributable to our headcount expansion, higher expenditures necessary to support interclick's increased business, such as depreciation and insurance, as well as approximately $91,000 of legal litigation expenses that did not occur in the prior year period and approximately $519,000 of expenses incurred in connection with merger and related activities. As a percentage of revenue, general and administrative expenses increased year-over-year, due largely to merger and related activity expenses, license fees, and other overhead, including headcount growth. The Company expects general and administrative expenses as a percentage of revenue to generally decline as the business expands, notwithstanding legal litigation costs which are currently expected to range between approximately $1.2 million and $1.5 million in 2011.

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Sales and Marketing

| | 2011 | 2010 | Period-over-Period $ Change | Period-over-Period % Change |
|---|---|---|---|---|
| Sales and marketing | $ 4,879,406 | $ 3,563,827 | $ 1,315,579 | 36.9 % |
| Percentage of revenues | 13.5 % | 13.5 % | | |

Sales and marketing expenses consist primarily of compensation (including sales commissions and stock-based compensation) for sales and marketing personnel, sales support resources, marketing and advertising efforts and industry event expenses. The increase in our sales and marketing expenses is primarily attributable to higher sales-related expenses and headcount expansion. Sales and marketing expenses as a percentage of revenue remained relatively consistent. The Company expects to continue its marketing and advertising efforts for the foreseeable future, including the promotion of the recently launched Genome platform.

Technology Support

| | 2011 | 2010 | Period-over-Period $ Change | Period-over-Period % Change |
|---|---|---|---|---|
| Technology support | $ 1,720,021 | $ 1,517,621 | $ 202,400 | 13.3 % |
| Percentage of revenues | 4.8 % | 5.7 % | | |

Technology support consists primarily of compensation (including stock-based compensation) of technology support and related resources such as co-location hosting, software, hardware and internet-related expenses. Technology support and related resources have been directed primarily towards supporting the growth of our business and the continued development and enhancement of our OSM and ad serving platforms, including the integration of data providers, and ongoing maintenance and improvement of our technology infrastructure, including expansion of our data center facilities in the first quarter of 2011.

The increase in technology support is primarily attributable to headcount expansion and higher co-location hosting expenses, largely offset by the capitalization of approximately $377,000 of internal-use software costs in the third quarter of 2011, principally related to the development of Genome. Such costs included payroll and payroll related costs attributable to product development personnel in our technology support group. We expect to capitalize, albeit likely to a lesser degree, additional costs associated with the development of internal-use software in the near-term.

As a technology-centric company, interclick is highly dependent on technology related costs to support its infrastructure, operations, and differentiated product offerings in the marketplace. The Company expects that its efforts in this regard will continue to help drive revenue growth and operating effectiveness for the foreseeable future.

Amortization of Intangible Assets

| | 2011 | 2010 | Period-over-Period $ Change | Period-over-Period % Change |
|---|---|---|---|---|
| Amortization of intangible assets | $ 104,341 | $ 39,500 | $ 64,841 | 164.2 % |

| Percentage of revenues | 0.3 | % | 0.1 | % |
| --- | --- | --- | --- | --- |

Amortization of intangible assets includes amortization of customer relationships, developed technology, and internal-use software. The increase in amortization of intangible assets expense is attributable to the capitalization and amortization of internal-use software beginning in the first quarter of 2011.

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Other Income (Expense)

| | 2011 | 2010 | Period-over-Period $ Change | Period-over-Period % Change |
|---|---|---|---|---|
| Other income (expense) | $ (69,092 ) | $ (137,827 ) | $ 68,735 | -49.9 % |
| Percentage of revenues | -0.2 % | -0.5 % | | |

Other income (expense) consists primarily of interest expense, and in the prior year period, other than temporary impairment of available-for-sale securities. The decrease in other expense is primarily attributable to the absence of $126,080 in other than temporary impairment of available-for-sale securities recognized in the prior year period. The vast majority of such available-for-sale securities were sold in December 2010 and accordingly no material impairments or loss on these available-for-sale securities is expected to occur in future periods. This decrease was partially offset by an increase in interest expense to $71,019 for the three months ended September 30, 2011 from $19,429 for the three months ended September 30, 2010. This increase is primarily attributable to higher average outstanding borrowings under our current line of credit versus our former line of credit, which is partially offset with savings from more favorable borrowing rates on our current line of credit. The increase is also partially attributable to increased interest expense incurred on capitalized leases for computer equipment purchased during the second half of 2010 and during the nine months ended September 30, 2011.

Income Tax Expense

| | 2011 | 2010 | Period-over-Period $ Change | Period-over-Period % Change |
|---|---|---|---|---|
| Income tax expense | $ (1,061,451 ) | $ (1,502,417 ) | $ 440,966 | -29.4 % |
| Percentage of revenues | -2.9 % | -5.7 % | | |

The decrease in income tax expense for the three months ended September 30, 2011 is primarily attributable to the reversal of an income tax benefit recognized during the three months ended March 31, 2010, and decreased taxable income generated by the Company for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. The Company’s effective tax rate for the three months ended September 30, 2011 was 57.3%. The Company currently estimates that its effective tax rate will be in the mid to high-40s percentage range for the foreseeable future.

Net Income

| | 2011 | 2010 | Period-over-Period $ Change | Period-over-Period % Change |
|---|---|---|---|---|
| Net income (loss) | $792,159 | $1,245,531 | $ (453,372 ) | -36.4 % |
| Percentage of revenues | 2.2 % | 4.7 % | | |

The decrease in net income is primarily attributable to cost of revenues and operating expenses growing at a faster rate than revenues during the three months ended September 30, 2011.

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Reconciliation of GAAP to Non-GAAP Measure

| | For the Three Months Ended September 30, 2011 | For the Three Months Ended September 30, 2010 |
|---|---|---|
| GAAP net income | $ 792,159 | $ 1,245,531 |
| Income tax expense | 1,061,451 | 1,502,417 |
| Income before income taxes | 1,853,610 | 2,747,948 |
| Interest expense | 71,019 | 19,429 |
| Interest income | (1,927) | (7,682) |
| Other than temporary impairment of available-for sale securities | - | 126,080 |
| Operating income | 1,922,702 | 2,885,775 |
| Stock-based compensation | 1,315,934 | 978,496 |
| Amortization of intangible assets | 104,341 | 39,500 |
| Depreciation | 266,203 | 182,370 |
| Merger and related expenses | 518,751 | - |
| EBITDA | $ 4,127,931 | $ 4,086,141 |

Nine Months Ended September 30, 2011 Compared with Nine Months Ended September 30, 2010

Revenues

| | 2011 | 2010 | Period-over-Period $ Change | Period-over-Period % Change |
|---|---|---|---|---|
| Revenues | $ 88,994,837 | $ 62,304,594 | $ 26,690,243 | 42.8 % |

Our revenue growth is attributed primarily to the continued increase in the number of advertisers seeking interclick's online solutions including a video advertising platform introduced in the first quarter of 2011 and a greater number of advertising impressions sold.

The continued overall growth in online advertising, ongoing enhancements to our technology platforms and new product innovations, our ability to acquire quality advertising impressions from publishers, and our effectiveness at providing data integrations across campaigns and analytical insights to clients, gives us confidence we will continue to increase our revenues on a year-over-year basis for the foreseeable future.

Cost of Revenues and Gross Profit

| | 2011 | 2010 | Period-over- | Period-over- |
|---|---|---|---|---|

| | | | Period $ Change | Period % Change |
|---|---|---|---|---|
| Cost of revenues | $ 50,974,054 | $ 34,145,933 | $ 16,828,121 | 49.3 % |
| Percentage of revenues | 57.3 % | 54.8 % | | |

The increase in our cost of revenues is primarily attributable to the continued growth in advertising campaigns requiring the purchase of appropriate levels of advertising impressions from publishers. Cost of revenues is comprised primarily of the amounts paid for advertising impressions, third-party data, ad verification, privacy notification, rich media and ad serving expenses directly associated with given campaigns. The increase in cost of revenues as a percentage of revenue is primarily attributable to higher advertising impression (including video), and data. Changes in cost of revenues as a percentage of revenue in any given period are also a function of the mix of advertising campaigns and general market conditions.

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| | 2011 | | 2010 | | Period-over-Period $ Change | Period-over-Period % Change | |
|---|---|---|---|---|---|---|---|
| Gross profit | $ 38,020,783 | | $ 28,158,661 | | $ 9,862,122 | 35.0 | % |
| Percentage of revenues | 42.7 | % | 45.2 | % | | | |

The overall increase in gross profit dollars is the primary result of the increase in revenue largely offset by higher cost of revenues. The decrease in gross profit as a percentage of revenue in 2011 from 2010 is attributable the higher year-over-year growth in cost of revenues as compared to the growth in revenues. We expect gross margin percentages will continue to range in the mid to low 40's over the next 12 months due to general market conditions, seasonal fluctuations and varying costs in connection with the dynamic mix of advertising campaigns, data, ad verification and privacy notification efforts.

Operating Expenses

Operating expenses consist of general and administrative, sales and marketing, technology support, and amortization of intangible assets. These are discussed in further detail below. Total operating expenses increased to $34,631,143 for the nine months ended September 30, 2011, from $24,410,924 for the nine months ended September 30, 2010, an increase of $10,220,219 or 41.9%. The increase was primarily due to headcount expansion from 107 employees as of September 30, 2010 to 134 employees as of September 30, 2011 (an increase of 25%) and higher compensation, higher sales related expenses, license fees, and increased overhead expenditures necessary to support interclick's increased business and ongoing product innovation initiatives, including our new audience recommendation engine Genome powered by OSMTM ("Genome") and costs associated with merger and related activities of approximately $519,000. These increases were partially offset by the capitalization of approximately $1,387,000 of internal-use software costs during the period (discussed further below) and the absence of a net cease-use charge of approximately $432,000 recognized in the prior year period. As a percentage of revenues, operating expenses decreased to 38.9% for the nine months ended September 30, 2011, from 39.2% for the nine months ended September 30, 2010, representing improved operating efficiency as the business expanded, offset by the expenses associated with merger and related activities. The majority of hiring was in the operations, technology, product and sales areas to support the growth of our business and the ongoing innovation, development and marketing of our technology platform, including OSM. We expect to continue hiring at a slower pace than year-over-year revenue growth during the remainder of 2011

In the first quarter of 2011, we began capitalizing the costs of internal-use software development projects. In connection with these projects, we capitalized approximately $1,386,000 of payroll and payroll related costs attributable to the product development personnel in our technology support group during the nine months ended September 30, 2011. These costs are amortized over three years as intangible assets as discussed further below.

General and Administrative

| | 2011 | | 2010 | | Period-over-Period $ Change | Period-over-Period % Change | |
|---|---|---|---|---|---|---|---|
| General and administrative | $ 16,859,355 | | $ 11,248,139 | | $ 5,611,216 | 49.9 | % |
| Percentage of revenues | 18.9 | % | 18.1 | % | | | |

General and administrative expenses consist primarily of executive, finance, administrative, operations and product support compensation (including stock-based compensation), facilities costs, depreciation, professional fees, licenses, insurance and other expenses. The increase in general and administrative expenses is primarily attributable to our headcount expansion, higher expenditures necessary to support interclick's increased business, such as rent, depreciation and insurance, as well as approximately $967,000 of legal litigation expenses that did not occur in the prior year period, and approximately $519,000 of expenses incurred in connection with merger and related activities, partially offset by the absence of a net cease-use charge of approximately $432,000 recognized in the prior year period. As a percentage of revenue, general and administrative expenses increased year-over-year, due largely to merger and related activity expenses, license fees, and other overhead, including headcount growth. The Company expects general and administrative expenses as a percentage of revenue to generally decline as the business expands, despite legal litigation costs which are currently expected to range between approximately $1.2 million and $1.5 million in 2011.

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Sales and Marketing

| | 2011 | 2010 | Period-over-Period $ Change | Period-over-Period % Change |
|---|---|---|---|---|
| Sales and marketing | $ 12,843,177 | $ 8,767,724 | $ 4,075,453 | 46.5 % |
| Percentage of revenues | 14.4 % | 14.1 % | | |

Sales and marketing expenses consist primarily of compensation (including sales commissions and stock-based compensation) for sales and marketing personnel, sales support resources, marketing and advertising efforts and industry event expenses. The increase in our sales and marketing expenses is primarily attributable to higher sales-related expenses and headcount expansion. The Company expects to continue its marketing and advertising efforts for the foreseeable future, including the promotion of the Genome platform.

Technology Support

| | 2011 | 2010 | Period-over-Period $ Change | Period-over-Period % Change |
|---|---|---|---|---|
| Technology support | $ 4,691,469 | $ 4,276,561 | $ 414,908 | 9.7 % |
| Percentage of revenues | 5.3 % | 6.9 % | | |

Technology support consists primarily of compensation (including stock-based compensation) of technology support and related resources such as hosting, software and internet-related expenses. Technology support and related resources have been directed primarily towards supporting the growth of our business and the continued development and enhancement of our OSM and ad serving platforms, including the integration of data providers, and ongoing maintenance and improvement of our technology infrastructure, including expansion of our data center facilities.

The increase in technology support is primarily attributable to headcount expansion and higher hosting expenses, largely offset by the capitalization of approximately $1,387,000 of internal-use software costs for the nine months ended September 30, 2011, principally related to the development of Genome. Such costs included payroll and payroll related costs attributable to product development personnel in our technology support group. We expect to capitalize, albeit likely to a lesser degree, additional costs associated with the development of internal-use software in the near-term.

As a technology-centric company, interclick is highly dependent on technology related costs to support its infrastructure operations, and differentiated product offerings in the marketplace. The Company expects that its efforts in this regard will continue to help drive revenue growth and operating effectiveness for the foreseeable future.

Amortization of Intangible Assets

| | 2011 | 2010 | Period-over-Period $ Change | Period-over-Period % Change |
|---|---|---|---|---|
| Amortization of intangible assets | $ 237,142 | $ 118,500 | $ 118,642 | 100.1 % |
| Percentage of revenues | 0.3 % | 0.2 % | | |

Amortization of intangible assets includes amortization of customer relationships, developed technology, and internal-use software. The increase in amortization of intangible assets expense is attributable to the capitalization and amortization of internal-use software beginning in the first quarter of 2011.

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Other Income (Expense)

| | 2011 | 2010 | Period-over-Period $ Change | Period-over-Period % Change |
|---|---|---|---|---|
| Other income (expense) | $ (381,166) | $ (734,879) | $ 353,713 | -48.1 % |
| Percentage of revenues | -0.4 % | -1.2 % | | |

Other income (expense) consists primarily of interest expense, and in the prior year period, other than temporary impairment of available-for-sale securities and warrant derivative liability income. The decrease in other expense is primarily attributable to the absence of $584,618 in other than temporary impairment of available-for-sale securities recognized in the prior year period. The vast majority of such available-for-sale securities were sold in December and accordingly no material impairments or loss on these available-for-sale securities is expected to occur in future periods. This decrease was partially offset by an increase in interest expense to $387,353 for the nine months ended September 30, 2011 from $196,375 for the nine months ended September 30, 2010, in connection with higher outstanding borrowings under our current line of credit versus our former line of credit, as well as increased interest expense incurred on capitalized leases for computer equipment purchased during 2010 and during the nine months ended September 30, 2011.

Income Tax Expense

| | 2011 | 2010 | Period-over-Period $ Change | Period-over-Period % Change |
|---|---|---|---|---|
| Income tax expense | $ (1,470,670) | $ (1,641,543) | $ 170,873 | -10.4 % |
| Percentage of revenues | -1.7 % | -2.6 % | | |

Income tax expense for the nine months ended September 30, 2011 is attributable to the decreased taxable income generated by the Company for the nine months ended September 30, 2011 over for the nine months ended September 30, 2010, partially offset by the reversal of an income tax benefit recognized during the three months ended March 31, 2010. The Company's effective tax rate for the nine months ended September 30, 2011 was 48.9%. The Company currently estimates that its effective tax rate will be in the mid to high-40s percentage range for the foreseeable future.

Net Income

| | 2011 | 2010 | Period-over-Period $ Change | Period-over-Period % Change |
|---|---|---|---|---|
| Net income | $ 1,537,804 | $ 1,371,315 | $ 166,489 | 12.1 % |
| Percentage of revenues | 1.7 % | 2.2 % | | |

The increase in net income is largely attributable to revenue growth, operating expenses growing at a slower pace than revenues, the absence of an impairment on available-for-sale securities, the absence of a net cease-use charge, and reduced income tax expense. The increase was partially offset by higher cost of revenues and higher interest expense.

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Reconciliation of GAAP to Non-GAAP Measure

| | For the Nine Months Ended September 30, 2011 | For the Nine Months Ended September 30, 2010 |
|---|---|---|
| GAAP net income | $ 1,537,804 | $ 1,371,315 |
| Income tax expense | 1,470,670 | 1,641,543 |
| Income before income taxes | 3,008,474 | 3,012,858 |
| Interest expense | 387,353 | 196,375 |
| Interest income | (6,187) | (24,701) |
| Warrant derivative liability income | - | (21,413) |
| Other than temporary impairment of available-for sale securities | - | 584,618 |
| Operating income | 3,389,640 | 3,747,737 |
| Stock-based compensation | 3,599,545 | 2,800,566 |
| Amortization of intangible assets | 237,142 | 118,500 |
| Depreciation | 722,079 | 502,726 |
| Merger and related expenses | 518,751 | - |
| EBITDA | $ 8,467,157 | $ 7,169,529 |

Liquidity and Capital Resources

Net cash provided by operating activities during the nine months ended September 30, 2011 totaled $6,175,891 and resulted primarily from net income of $1,537,804, adjusted for non-cash items, including stock-based compensation of $3,599,545, bad debt expense of $222,434, and depreciation and amortization expense of $959,221. In addition to these non-cash adjustments, cash was positively affected by a net decrease in accounts receivable of $5,506,522. These increases were partially offset by decreases in accounts payable of $3,618,047, and an increase in prepaid expenses and other current assets of $1,616,571, including prepaid income taxes of $1,311,968.

Net cash used in operating activities during the nine months ended September 30, 2010 totaled $829,104 and resulted primarily from net income of $1,371,315, adjusted for non-cash items, including stock-based compensation of $2,800,566, an other than temporary impairment of available-for-sale securities of $584,618, and depreciation and amortization expense of $621,226. In addition to these non-cash adjustments, cash was positively affected by an increase in deferred rent attributable to a net cease-use charge of approximately $432,000 relating to the Company’s expansion into larger headquarters in the second quarter of 2010 and an increase in accounts payable of $1,898,976, which is attributable to the overall growth of the business. These increases were partially offset by an increase in accounts receivable of $8,607,026, which is also attributable to the continued overall growth of the business.

Net cash used in investing activities during the nine months ended September 30, 2011 totaled $1,767,630 and resulted from the purchase of $381,063 of property and equipment, which were necessary as we continue to build out our technology infrastructure and $1,386,567 of costs associated with the development of our various internal-use software platforms, principally the development of Genome.

Net cash used in investing activities during the nine months ended September 30, 2010 totaled $1,942,362 and resulted primarily from $659,425 of purchases of property and equipment and the transfer of $1,294,187 of cash to restricted cash related to certificates of deposit securing letters of credit.

Net cash used in financing activities during the nine months ended September 30, 2011 was $4,347,221 and resulted primarily from the net repayment of $4,500,000 of borrowings under the Company's current line of credit and $540,662 of payments made on the capitalized leases for property and equipment acquired. These repayments were partially offset by proceeds of $632,902 received from the exercise of stock options and warrants.

Net cash provided by financing activities during the nine months ended September 30, 2010 was $1,109,521 and resulted primarily from proceeds of $5,200,000 under the current line of credit with Silicon Valley Bank ("SVB") and proceeds of $336,707 from the exercise of stock options, partially offset by net repayments of $4,208,667 under the former Crestmark Commercial Capital Lending, LLC ("Crestmark") line of credit and $130,178 of payments on capitalized leases for property and equipment acquired.

During nine months ended September 30, 2011, we acquired $1,933,323 in capital assets, including $1,552,260 of computer equipment through conventional capital leases. These additions further enhance the features and scale of our technology assets, which are necessary to support both the realization of our growth objectives as well as to advance interclick's present competitive position. For the remainder of 2011, we expect to acquire up to approximately $1,000,000 in additional capital assets, a significant portion of which will likely be financed through capital leases.

As of September 30, 2011, the balance outstanding on the SVB line of credit was $4,000,000. As of September 30, 2011, the Company had $11,000,000 of borrowing capacity available under the SVB line of credit based on the availability of eligible accounts receivable.

As of September 30, 2011, the Company has an outstanding standby letter of credit in the amount of $294,700 for the benefit of the landlord of the Company's New York office facilities. This letter of credit is secured by a certificate of deposit, which at September 30, 2011, is classified as restricted cash, a non-current asset.

At September 30, 2011, interclick had working capital of $28,808,125, including $12,511,690 in cash and cash equivalents, $500,208 in a short-term investment, and $500,820 in near-term restricted cash. interclick's working capital is impacted by the seasonal nature of its business, whereby revenue and receivables are typically weakest in the first quarter and strongest in the fourth quarter. As of November 8, 2011, interclick had approximately $14,296,000 of cash and cash equivalents and $298,000 in total restricted cash. Due to this cash position, full use of the SVB line of credit has recently not been necessary. interclick has delivered positive EBITDA for more than two years. We discuss this non-GAAP financial measure and its limitations under Company Overview above. Management anticipates that revenues will continue to increase for the foreseeable future. For all of these reasons, interclick expects that it has sufficient cash and borrowing capacity to meet its working capital needs for at least the next 12 months.

Related Party Transactions

No related party transactions had a material impact on our operating results.

New Accounting Pronouncements

No new recent accounting pronouncements had an impact on the financial position or operating results.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to the accounts receivable and allowance for doubtful accounts, intangible assets and goodwill, useful lives of intangible assets and property and equipment, fair values of stock-based awards, income taxes, and contingent

liabilities, among others.

In response to the SEC's financial reporting release, FR-60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," the Company has selected a more subjective accounting estimation processes for purposes of explaining the methodology used in calculating estimates, in addition to the inherent uncertainties pertaining to the estimate and the possible effects on interclick's financial condition. The accounting estimates are discussed below. These estimates involve certain assumptions that if incorrect could create a material adverse impact on interclick's results of operations and financial condition.

Allowance for Doubtful Accounts

Management is particularly attentive to the length of accounts receivable collection cycles and the related possibility of an increase in bad debts. Management continuously monitors the credit worthiness of our customers and the aging of accounts receivable to identify accounts receivable balances which may be deemed uncollectible, and to establish an appropriate allowance based upon historical collection and write-off experience. The Company's customer agreements are primarily entered into with agencies which manage campaigns on behalf of brand advertisers. Such agreements are governed by Standard Terms and Conditions for Internet Advertising as prescribed by the Interactive Advertising Bureau. Under these agreements, the Company holds the agency liable for payments to the extent proceeds have cleared from the advertiser to the agency for campaigns placed in accordance with the agreement. For sums not cleared to the agency, the Company may hold the advertiser solely liable. Write-offs of accounts receivable are taken in the period when the Company has exhausted its efforts to collect overdue and unpaid receivables or otherwise has evaluate other circumstances that indicate that the Company should abandon such efforts.

The Company's bad debt reserve was $637,538, or approximately 1.6% of gross accounts receivable as of September 30, 2011 as compared to $563,512, or 1.25% of gross accounts receivable as of December 31, 2010.

Internal-Use Software

The Company's policy with respect to internal-use software provides for the capitalization of external direct costs of materials and services associated with developing or obtaining internal use software. In addition, the Company also capitalizes certain payroll and payroll-related costs for employees who are directly associated with developing internal use software projects. The amount of capitalizable payroll costs is limited to the time directly spent on such projects. Costs associated with preliminary project state activities, training, maintenance and all other post-implementation stage activities are expensed as incurred. The Company also expenses internal costs related to minor upgrades and enhancements related activities, as it is impractical to separate these costs from normal maintenance activities. The Company began capitalizing internal-use software costs beginning in 2011 due to the success and market acceptance of OSM after its launch in 2010.

Revenue Recognition

Revenues consist of amounts charged to customers, net of discounts, credits and amounts paid for serving advertising impressions, click-throughs or other actions placed on our publisher vendor's websites. The Company's revenue is recognized in the period that the advertising impressions, click-throughs or actions occur, when lead-based information is delivered or, provided that no significant Company obligations remain, collection of the resulting receivable is reasonably assured, and prices are fixed or determinable. The Company recognizes revenue as a principal on a gross basis when the following criteria have been met: (i) persuasive evidence of an arrangement exists, (ii) the fees are fixed or determinable, (iii) no significant Company obligations remain, and (iv) collection of the related receivable is reasonably assured.

Stock-Based Compensation

Stock-based compensation expense is estimated at the grant date based on the award's fair value as calculated by the Black-Scholes option pricing model and is recognized as expense over the requisite service period. The Black-Scholes option pricing model requires various highly judgmental assumptions including expected volatility and expected term. If any of the assumptions used in the Black-Scholes option pricing model changes significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. We estimate the forfeiture rate based on historical experience. To the extent our actual forfeiture rate is different from our

estimated rate, stock-based compensation expense is adjusted accordingly.

Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including anticipated revenues, expected increases in our advertising customer base, expected gross margins, expected hiring of new employees, having sufficient cash and borrowing capacity to meet its working capital for at least the next 12 months and expectations regarding acquiring additional capital assets. Forward-looking statements can be identified by words such as “anticipates,” “intends,” “plans,” “projects,” “seeks,” “believes,” “estimates,” “expects” ar references to future periods.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. We caution you therefore against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. Important factors that could cause actual results to differ materially from those in the forward-looking statements include the impact of factors either within or outside our control. These include, but are not limited to, intense competition, the worsening of current economic conditions, a potential decrease in corporate advertising spending, a potential decrease in consumer spending, the condition of the domestic and global credit and capital markets, higher-than-expected expenses, our ability to generate revenue and effectively operate the business, the uncertainty of regulatory approval and the parties' ability to satisfy the Tender Offer and Merger Agreement conditions and consummate the transaction.

Any forward-looking statement made by us in this report speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time-to-time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable to smaller reporting companies

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. Our management carried out an evaluation, with the participation of our Principal Executive Officer and Principal Financial Officer, required by Rule 13a-15 of the Securities Exchange Act of 1934 (the "Exchange Act") of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act. Based on that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

From time-to-time, the Company may be involved in litigation relating to claims arising out of the Company's operations in the normal course of business.

On or about December 8, 2010, Sonal Bose commenced an action in the United States District Court for the Southern District of New York (Sonal Bose v. Interclick, Inc., Case No. 10 Civ. 9183-DAB (S.D.N.Y.)) alleging that interclick engaged in certain activities that plaintiff claims violate electronic privacy and computer use laws. The plaintiff

asserts federal and state law claims, and seeks compensatory, statutory, and punitive damages, restitution, and reimbursement of expenses and attorney's fees. The plaintiff also seeks injunctive and declaratory relief and class action certification.

Plaintiff also had brought a related action in the United States District Court for the Southern District of New York against certain of our advertisers, which has been voluntarily dismissed as a separate action now that plaintiff has filed an Amended Complaint naming the advertisers as defendants in the action against the Company. The Company is providing for the defense of the advertisers.

On August 17, 2011, ruling on the Company's and the advertisers' motions to dismiss the Amended Complaint, the Court dismissed the sole remaining federal claim alleging violation of the Computer Fraud and Abuse Act and the state law claims for breach of implied contract and tortious interference with prejudice, and dismissed all claims against the advertisers with prejudice. The only remaining claims are claims against the Company for trespass to chattels and under New York's Consumer Protection Law (General Business Law Section 349).

On September 16, 2011, the Company filed an Answer to the Amended Complaint, denying plaintiff's claims. As previously noted, the Company believes the case is entirely without merit and intends to vigorously defend its prior practices and technology.

On November 8, 2011, a purported class action lawsuit was filed in the Supreme Court of the State of New York, New York County, under the caption Sam Elghanian, individually and on behalf of all others similarly situated v. interclick, inc. et al., Index No. 653101/2011. The plaintiff alleges that members of the Board of Directors breached their fiduciary duties by, amongst other things, agreeing to sell the Company for inadequate consideration. The lawsuit names the Company and the members of the Board of Directors as defendants and seeks, among other relief, an injunction over the proposed sale of the Company to Yahoo.

Item 1A. Risk Factors.

Not applicable to smaller reporting companies.

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

| Name or Class | Date Sold | No. of Securities | Consideration |
|---|---|---|---|
| Warrant holder (1) | July 7, 2011 | 7,500 shares of common stock | $ 33,300 |

(1) Exemption under Section 4(2) of the Act.

Item 3. Defaults Upon Senior Securities.

None

Item 4. (Removed and Reserved).

Item 5. Other Information.

None

Item 6. Exhibits.

| Exhibit # | Exhibit Description | Filed or Furnished Herewith |
|---|---|---|
| 31.1 | Certification of Principal Executive Officer (Section 302) | Filed |
| 31.2 | Certification of Principal Financial Officer (Section 302) | Filed |
| 32.1 | Certification of Principal Executive Officer and Principal Financial Officer (Section 906) | Furnished |
| 101.INS | XBRL Instance Document ** | |
| 101.SCH | XBRL Taxonomy Extension Schema Document ** | |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document ** | |

| | |
|---|---|
| 101.LAB | XBRL Taxonomy Labels Linkbase Document ** |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document ** |
| 101.DEF | XBRL Definition Linkbase Document ** |

** Attached as Exhibit 101 to this report are the following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) related notes to these financial statements tagged as blocks of text. The XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed "filed" or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, and is not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of those sections.

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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.

interclick, inc.

| | |
|---|---|
| November 10, 2011 | /s/ Michael Katz<br>Michael Katz<br>Chief Executive Officer<br>(Principal Executive Officer) |
| November 10, 2011 | /s/ Roger Clark<br>Roger Clark<br>Chief Financial Officer<br>(Principal Financial Officer) |

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EXHIBIT INDEX

Item 6. Exhibits.

| Exhibit # | Exhibit Description | Filed or Furnished Herewith |
|---|---|---|
| 31.1 | Certification of Principal Executive Officer (Section 302) | Filed |
| 31.2 | Certification of Principal Financial Officer (Section 302) | Filed |
| 32.1 | Certification of Principal Executive Officer and Principal Financial Officer (Section 906) | Furnished |
| 101.INS | XBRL Instance Document ** | |
| 101.SCH | XBRL Taxonomy Extension Schema Document ** | |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document ** | |
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