Harris Interactive Revenue Grows 13% in Fiscal 2008

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Harris Interactive (NASDAQ:HPOL) announced results for its fourth fiscal quarter and fiscal year ended June 30, 2008.

$63.5 million Q4 revenue meets expectations â€“ solid growth in Europe and most of US offsets ongoing US pharma business difficulties

Solid Q4 European performance: bookings +30%, revenue +12%, Internet revenue +98%

Expenses related to strategic review process cause a $1.6 million charge in the quarter

Solid cash generation continues: $16 million of EBITDA in FY08 -- $33 million of cash at fiscal year end

Enterprise-wide FY08 cost-cutting actions will save approximately $6 million over next 12 months

Expect flat revenue with strong profit growth in FY09

"2008 was a challenging year, to say the least," said Gregory T. Novak, president and CEO. "The year started with revenue and profit growth on plan and our expansion into Canada and Asia, but then was derailed by the rapid deterioration of the macro-economic environment in North America which hit our pharma business particularly hard. Declining bookings caused revenue to drop more rapidly than our ability to scale-back costs. Our growth flattened and our profitability suffered. We dedicated the second-half of the year to right-sizing and restructuring our Company to match costs with projected revenue. As a result, we are a leaner and stronger organization. Iâ€™m optimistic about our future as we continue to focus resources on our high-value clients, and invest to develop innovative solutions to help them keep pace in this rapidly changing world," Novak ended.

Q4FY08 Charges

In its fourth fiscal quarter, the Company recorded charges related to three unusual and non-recurring items:

Goodwill

Our annual impairment analysis, performed in accordance with FASB Statement No.142 indicated that the fair value of the Company was less than the carrying value of our net assets at June 30, 2008. Based upon an estimated valuation, the Company has recorded a preliminary pre-tax, non-cash charge of $123.0 million.

Strategic review process

The Company recorded a charge of $1.6 million in legal, accounting, banking and other costs in connection with a review of its strategic alternatives.

UK restructuring

The Company recorded a $0.5 million restructuring charge for actions taken to streamline operations in the UK. This unplanned charge pushed the total restructuring and severance charges to $3.0 million for the year, up from the $2.3 million estimate used to calculate the Company guidance issued in May 2008.

Fourth Fiscal Quarter 2008 Results

"While difficulties in the US pharma business continued, we did see some signs of strength and progress being made in the fourth fiscal quarter: significant bookings, revenue and Internet revenue growth in Europe, growth in all of our US non-pharma custom research groups, and continued cash generation and strength in our balance sheet," said Novak.

Revenue

Q4FY08 consolidated revenue was $63.5 million, at the mid-point of guidance, and up 11% when compared to the same period last year. Favorable effects of foreign currency exchange added $0.5 million in the quarter. Pro forma organic

revenue growth of 12% in Europe was countered by a 7% decline in North America, which caused consolidated pro forma organic revenue to decline by 3%.

Operating/net loss

$2.7 million in restructuring and other unusual items, along with the preliminary $123.0 million goodwill impairment charge, created a $(124.2) million operating loss for the quarter, compared with operating income of $4.2 million reported for the same period last year. The net loss for the quarter was $(121.2) million, or $(2.28) per share, compared with net income of $3.4 million or $0.06 per fully diluted share for the fourth quarter of fiscal 2007. "The significant cost-cutting actions, and $1.1 million of associated charges we took in Q4 were necessary in order to right-size our operations and stem our margin erosion," said Ronald E. Salluzzo, CFO.

Adjusted EBITDA1

Fourth fiscal quarter adjusted EBITDA, calculated by adding back $1.0 million of non-cash stock-based compensation expense and the preliminary $123.0 million goodwill impairment charge, was $2.4 million or 3.7% of revenue, down 66% when compared with $7.0 million of adjusted EBITDA, or 12.2% of revenue reported in Q4FY07.

Bookings

Consolidated bookings for the fourth fiscal quarter were $53.3 million, up 5% when compared with $50.9 million of bookings reported for the same period a year ago. European bookings, led by a 41% increase in Germany, were up 30%. Declines in Healthcare bookings in the US drove a 21% drop in North American bookings. "We saw good bookings growth throughout all sectors of the Company, however, they were not enough to offset the decline in Healthcare bookings," said Salluzzo.

Fiscal Year 2008 Results

Revenue

Revenue for fiscal 2008, which ended on June 30, 2008, was within our guidance at $238.7 million, and up 13% when compared with $211.8 million of revenue reported for fiscal 2007. Favorable effects of foreign currency exchange added $2.5 million in the fiscal year. European pro forma organic revenue grew 6%, but North American pro forma revenue declined 3%, pushing consolidated pro forma organic revenue down 1%. "Good organic revenue growth in Europe and Asia as well as many of our US business units was almost enough to counter an 11% drop in our US Healthcare revenue," stated Salluzzo. "Our new Healthcare leaders are making good progress in the turnaround of that group, and we now expect Healthcare revenue to stabilize by the end of the calendar year with the possibility of some upside in the second half of fiscal 2009."

Operating/net loss

Operating loss for the fiscal year, including $4.6 million of restructuring and other unusual items and an estimated $123.0 million goodwill impairment charge, was $(121.1) million, compared with operating income of $12.3 million last year. Net loss for the full fiscal year was $(120.2) million, or $(2.27) per share, compared with net income of $9.1 million or $0.16 per diluted share in fiscal 2007. "Rising interest costs and amortization charges coupled with restructuring costs, strategic review costs, severance and other unusual charges severely impacted our profit for the year. Excluding the unusual charges, our earnings were within our guidance," said Salluzzo. "We adjusted costs across the enterprise in 2008, and we now believe that our profit levels will improve in 2009."

Adjusted EBITDA1

For the full fiscal year, adjusted EBITDA, calculated by adding back $4.1 million of non-cash stock-based compensation expense and the preliminary $123.0 million goodwill impairment charge, was $16.1 million or 6.7% of revenue, down 30% when compared with $22.9 million of adjusted EBITDA, or 10.8% of revenue reported for the same prior year period.

Bookings

Consolidated bookings for fiscal year 2008 were $233.6 million, up 8% over the $217.1 million in bookings in fiscal 2007. "France, Germany and Asia all had good pro forma organic bookings growth for the year, and we expect to see more of the same from them in 2009," said Salluzzo.

Balance sheet

As of June 30, 2008, cash, cash equivalents and marketable securities were $32.9 million, down slightly from $33.3 million reported a year ago, and up from $31.2 million of cash, cash equivalents and marketable securities reported as of

March 31, 2008. The Company had $29.4 million of outstanding debt as of June 30, 2008. "Harris Interactive continues to be a solid cash generator, and all of the cost-control actions we took in FY08 will help us increase our cash-flow in FY09," said Salluzzo.

1 EBITDA, a non-GAAP measure, is reconciled to our GAAP financial statements in the accompanying schedules.

FY2009 outlook

"We expect our first fiscal quarter will be affected by the ongoing economic difficulties in North America and lingering revenue erosion in our pharma business," stated Salluzzo. "While not issuing specific guidance for FY09, we expect conditions will improve as we move through the year and that growth from many groups, especially outside the US, should offset declines and keep revenue flat for the fiscal year. Benefits from our previous cost-cutting actions should drive significant profit growth, and our reliable ability to generate cash will enable us to reduce debt and invest in innovative growth opportunities," Salluzzo ended.

"While we certainly recognize there is more hard work to be done, the cost-cutting and restructuring actions we took in 2008, coupled with the improvements we saw in the fourth quarter, give me confidence that 2009 will be a better year," said Novak. "Weâ€™re collaborating with a top-tier consulting firm which has helped us identify opportunities to improve our efficiency, increase our margins and grow revenue by focusing on building strong client relationships. New management in our pharma business has begun to rejuvenate that group, our balance sheet continues to show strength and our European and Asian acquisitions continue to perform well."

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