

DIGITAL INSIGHT CORP
Form 10-Q
August 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2006

Commission file number 000-27459

Digital Insight Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

77-0493142
(IRS Employer
Identification Number)

26025 Mureau Road, Calabasas, CA 91302

(Address of principal executive offices, including zip code)

(818) 871-0000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

As of July 31, 2006, there were 33,859,273 shares of the registrant's \$0.001 par value common stock outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
DIGITAL INSIGHT CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share information)

	June 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23,668	\$ 50,734
Short-term investments	76,322	65,421
Accounts receivable, net of allowance for doubtful accounts of \$2,155 and \$1,025	31,514	32,583
Accumulated implementation costs	2,286	2,125
Deferred tax asset, net	18,111	18,987
Prepaid and other current assets	4,640	3,932
Total current assets	156,541	173,782
Property and equipment, net of accumulated depreciation of \$74,047 and \$69,705	30,657	29,609
Goodwill	134,390	136,382
Intangible assets, net of accumulated amortization of \$40,816 and \$38,782	7,354	9,388
Accumulated implementation costs	5,100	3,883
Long-term investments	6,769	8,802
Deferred tax asset, net	19,573	17,440
Other assets	5,592	6,116
Total assets	\$ 365,976	\$ 385,402
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 9,649	\$ 8,144
Accrued compensation and related benefits	5,813	6,504
Customer deposits and deferred revenue	14,436	16,250
Accrued expenses and other liabilities	11,919	8,931
Current portion of capital lease obligation	303	262
Tax contingency reserve	5,332	5,158
Total current liabilities	47,452	45,249
Customer deposits and deferred revenue	9,193	7,843
Capital lease obligations	1,098	1,241
Total liabilities	57,743	54,333
Commitments and contingencies (Note 5)		
Stockholders equity:		
Common stock, \$.001 par value; 100,000,000 shares authorized; 38,971,122 shares issued and 33,646,767 shares outstanding at June 30, 2006 and 37,221,490 shares issued and 34,488,234 shares outstanding at	39	37

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December 31, 2005

Additional paid-in capital	512,461	472,729
Treasury stock, at cost; 5,018,604 shares at June 30, 2006 and 2,544,509 shares at December 31, 2005	(129,677)	(50,091)
Deferred stock-based compensation		(4,466)
Accumulated deficit	(74,590)	(87,140)
Total stockholders' equity	308,233	331,069
Total liabilities and stockholders' equity	\$ 365,976	\$ 385,402

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

DIGITAL INSIGHT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Revenues	\$ 61,622	\$ 52,324	\$ 119,512	\$ 104,071
Cost of revenues (including stock-based compensation of \$454 and \$807 for the three and six months ended June 30, 2006, respectively)	27,216	22,197	52,519	44,536
Gross profit	34,406	30,127	66,993	59,535
Operating expenses:				
Sales, general and administrative (including stock-based compensation of \$2,035 and \$3,357, \$39 and \$78 for the three and six months ended June 30, 2006 and 2005, respectively)	15,960	13,076	29,263	26,182
Research and development (including stock-based compensation of \$617 and \$1,075 for the three and six months ended June 30, 2006, respectively)	7,499	5,688	14,465	11,042
Amortization of intangible assets	957	2,025	2,034	4,050
Restructuring charge	352		1,595	
Total operating expenses	24,768	20,789	47,357	41,274
Income from operations	9,638	9,338	19,636	18,261
Interest and other income, net	1,238	777	2,391	1,314
Income before provision for income taxes	10,876	10,115	22,027	19,575
Provision for income taxes	4,527	3,720	9,477	7,457
Net income	\$ 6,349	\$ 6,395	\$ 12,550	\$ 12,118
Basic net income per share	\$ 0.18	\$ 0.18	\$ 0.36	\$ 0.34
Diluted net income per share	\$ 0.18	\$ 0.18	\$ 0.35	\$ 0.34
Shares used to compute basic net income per share	34,340	34,811	34,416	35,183
Shares used to compute diluted net income per share	35,225	35,765	35,390	35,835

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

DIGITAL INSIGHT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Six Months Ended June 30,	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 12,550	\$ 12,118
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	6,444	6,857
Amortization of intangible assets	2,034	4,050
Stock-based compensation	5,239	78
Deferred income taxes	(2,034)	5,636
Loss on disposition of property and equipment	24	47
Restructuring, net of cash paid	1,213	
Income tax benefit on stock options exercised	10,357	1,033
Excess tax benefits from stock-based compensation	(5,878)	
Changes in operating assets and liabilities:		
Accounts receivable	1,069	2,756
Accumulated implementation costs	(1,378)	170
Prepaid and other current assets	(708)	(1,597)
Other assets	1,302	(5,723)
Accounts payable	1,828	3,718
Accrued compensation and related benefits	(1,209)	1,746
Customer deposits and deferred revenue	(464)	(476)
Other liabilities and tax contingency reserve	1,279	475
Net cash provided by operating activities	31,668	30,888
Cash flows from investing activities:		
Purchases of investments:		
Held-to-maturity	(61,941)	(60,911)
Available-for sale	(800)	(15,073)
Other instruments		(500)
Proceeds from maturity of investments:		
Held-to-maturity	52,270	44,814
Available for sale	1,603	3,615
Purchase of property and equipment	(8,543)	(8,077)
Net cash used in investing activities	(17,411)	(36,132)
Cash flows from financing activities:		
Principal payments on capital leases	(102)	
Acquisition of treasury stock	(75,381)	(46,184)
Proceeds from issuance of common stock	28,282	7,157
Excess tax benefits from stock-based compensation	5,878	
Net cash used in financing activities	(41,323)	(39,027)
Net decrease in cash and cash equivalents	(27,066)	(44,271)
Cash and cash equivalents, beginning of period	50,734	64,682
Cash and cash equivalents, end of period	\$ 23,668	\$ 20,411

Supplementary disclosures of cash flow information:

Cash paid during the period for interest	\$ 42	\$
Cash paid during the period for income taxes	\$ 789	\$ 861

Non-cash items:

Accrued property and equipment	\$ 290	\$ (909)
Accrued treasury stock purchase	\$ 1,848	\$
Settlement of Escrow Claim (see notes 2 and 5)		
Reduction of goodwill	\$ 1,992	\$
Increase in additional paid-in capital	\$ 365	\$
Return of common stock included in treasury stock	\$ 2,357	\$

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

DIGITAL INSIGHT CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(Unaudited, in thousands, except share data)

	Common Stock		Additional Paid-In Capital	Treasury Shares	Treasury Stock, at cost	Deferred Stock-Based Compensation	Accumulated Deficit	Total Stockholders Equity
	Shares	Amount						
Balance at December 31, 2005	37,221,490	\$ 37	\$ 472,729	(2,544,509)	\$ (50,091)	\$ (4,466)	\$ (87,140)	\$ 331,069
Reclassification of deferred stock-based compensation upon adoption of SFAS 123(R) (Note 8)			(4,466)					