

Dealertrack Technologies, Inc
Form 10-Q
November 09, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

Commission File Number 000-51653

Dealertrack Technologies, Inc.

(Exact name of Registrant as specified in its charter)

Delaware 52-2336218
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification Number)
organization)

1111 Marcus Ave., Suite M04
Lake Success, NY 11042
(Address of principal executive offices, including zip code)

(516) 734-3600

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(Registrant's telephone number, including area code)

DealerTrack Holdings, Inc.

(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions 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 Smaller reporting company
(Do not check if a smaller reporting company)

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

As of October 31, 2012, 42,711,488 shares of the registrant's common stock were outstanding.

DEALERTRACK TECHNOLOGIES, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****DEALERTRACK TECHNOLOGIES, INC.****CONSOLIDATED BALANCE SHEETS
(Unaudited)**

	September 30, 2012	December 31, 2011
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 163,700	\$ 78,709
Marketable securities	45,413	46
Customer funds	3,861	1,097
Customer funds receivable	20,822	18,695
Accounts receivable, net of allowances of \$4,405 and \$5,102 as of September 30, 2012 and December 31, 2011, respectively	46,772	37,588
Deferred tax assets	9,019	9,171
Prepaid expenses and other current assets	24,488	23,011
Total current assets	314,075	168,317
Marketable securities – long-term	8,192	—
Property and equipment, net	22,702	21,637
Software and website developments costs, net	40,348	37,341
Investments (Note 10)	124,179	89,000
Intangible assets, net	99,289	96,441
Goodwill	242,082	200,840
Deferred tax assets, net	31,654	34,421
Other assets — long-term	14,308	12,356
Total assets	\$896,829	\$ 660,353
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$7,641	\$ 7,792
Accrued compensation and benefits	13,288	17,915

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Accrued liabilities — other	15,852	15,487
Customer funds payable	24,683	19,792
Deferred revenue	10,103	9,115
Deferred tax liabilities	3,473	3,443
Due to acquirees	10,966	—
Capital leases payable	122	255
Total current liabilities	86,128	73,799
Capital leases payable	124	107
Deferred tax liabilities	76,510	70,087
Deferred revenue	5,542	6,730
Due to acquirees	—	10,493
Senior convertible notes, net (Note 18)	160,342	—
Other liabilities	3,644	4,381
Total long-term liabilities	246,162	91,798
Total liabilities	332,290	165,597
Commitments and contingencies (Note 16)		
Stockholders' equity		
Preferred stock, \$0.01 par value: 10,000,000 shares authorized and no shares issued and outstanding	—	—
Common stock, \$0.01 par value: 175,000,000 shares authorized; 45,818,146 shares issued and 42,691,290 shares outstanding as of September 30, 2012; and 44,957,890 shares issued and 41,858,697 shares outstanding as of December 31, 2011	458	450
Treasury stock, at cost, 3,126,856 shares and 3,099,193 shares as of September 30, 2012 and December 31, 2011, respectively	(52,351)	(51,567)
Additional paid-in capital	534,875	486,284
Accumulated other comprehensive income	8,376	6,363
Retained earnings	73,181	53,226
Total stockholders' equity	564,539	494,756
Total liabilities and stockholders' equity	\$896,829	\$ 660,353

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

DEALERTRACK TECHNOLOGIES, INC.**CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)**

	Three Months Ended September 30, 2012		2011		Nine Months Ended September 30, 2012		2011	
	(In thousands, except per share amounts)		(In thousands, except per share amounts)		(In thousands, except per share amounts)		(In thousands, except per share amounts)	
Revenue:								
Net revenue	\$ 99,084	\$ 95,793	\$ 287,097	\$ 262,035				
Operating expenses: (1)								
Cost of revenue	55,475	52,129	162,337	145,121				
Product development	2,874	3,278	8,812	9,749				
Selling, general and administrative	35,307	33,342	103,502	95,317				
Total operating expenses	93,656	88,749	274,651	250,187				
Income from operations	5,428	7,044	12,446	11,848				
Interest income	181	71	595	270				
Interest expense	(3,214)	(334)	(7,579)	(578)				
Other income (expense), net	(5,271)	72	(6,121)	171				
Gain on disposal of subsidiary and sale of other assets (Note 9)	—	—	33,193	—				
Earnings from equity method investment, net	429	—	737	—				
Realized gain on securities	4	—	4	409				
Income (loss) before (provision for) benefit from income taxes, net	(2,443)	6,853	33,275	12,120				
(Provision for) benefit from income taxes, net	(488)	(1,492)	(13,320)	20,135				
Net (loss) income	\$ (2,931)	\$ 5,361	\$ 19,955	\$ 32,255				
Basic net (loss) income per share	\$ (0.07)	\$ 0.13	\$ 0.47	\$ 0.78				
Diluted net (loss) income per share	\$ (0.07)	\$ 0.13	\$ 0.45	\$ 0.76				
Weighted average common stock outstanding (basic)	42,661	41,396	42,413	41,146				
Weighted average common stock outstanding (diluted)	42,661	42,497	43,909	42,367				

(1) Stock-based compensation expense recorded for the three and nine months ended September 30, 2012 and 2011 was classified as follows (in thousands):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Cost of revenue	\$ 603	\$ 456	\$ 1,828	\$ 1,308
Product development	169	176	589	548
Selling, general and administrative	2,718	2,113	7,785	6,857

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

DEALERTRACK TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	(In thousands)		(In thousands)	
Net (loss) income	\$ (2,931)	\$ 5,361	\$ 19,955	\$ 32,255
Other comprehensive income, net of tax				
Foreign currency translation adjustments	2,141	(4,030)	1,985	(2,449)
Net change in unrealized gains (losses) on securities	42	(160)	28	(173)
Other comprehensive income (loss)	2,183	(4,190)	2,013	(2,622)
Total comprehensive (loss) income	\$ (748)	\$ 1,171	\$ 21,968	\$ 29,633

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

DEALERTRACK TECHNOLOGIES, INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
	(In thousands)	
Operating Activities:		
Net income	\$ 19,955	\$ 32,255
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37,659	37,620
Deferred tax provision (benefit)	9,261	(22,813)
Stock-based compensation expense	10,202	8,713
Provision for doubtful accounts and sales credits	5,520	4,828
Earnings from equity method investment, net	(737)	—
Deferred compensation	112	150
Stock-based compensation windfall tax benefit	(4,226)	(2,255)
Gain on disposal of subsidiary and sale of other assets	(33,193)	—
Realized gain on securities	(4)	(409)
Amortization of debt issuance costs and debt discount	5,244	213
Change in contingent consideration	(900)	—
Change in fair value of warrant	6,310	—
Amortization of deferred interest	574	15
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(17,312)	(16,449)
Prepaid expenses and other current assets	2,848	(1,649)
Other assets — long-term	6,796	(223)
Accounts payable and accrued expenses	(5,186)	(3,969)
Deferred rent	151	37
Deferred revenue	1,912	1,726
Other liabilities — long-term	(2,190)	965
Net cash provided by operating activities	42,796	38,755
Investing Activities:		
Capital expenditures	(6,610)	(6,860)
Capitalized software and website development costs	(14,824)	(14,807)
Proceeds from sale of Chrome-branded asset	5,500	—
Purchases of marketable securities	(70,175)	—
Proceeds from sales and maturities of marketable securities	16,106	2,935
Cash contributed for equity method investment	(1,750)	—
Payment for acquisition of businesses and intangible assets, net of acquired cash	(73,994)	(151,962)
Net cash used in investing activities	(145,747)	(170,694)

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Financing Activities:

Principal payments on capital lease obligations and financing arrangements	(496)	(387)
Proceeds from the exercise of employee stock options	5,500		5,177	
Proceeds from employee stock purchase plan	592		509	
Proceeds from issuance of senior convertible notes	200,000		—	
Payments for debt issuance costs	(7,723)	(1,909)
Payments for convertible note hedges	(43,940)	—	
Proceeds from issuance of warrants	29,740		—	
Purchases of treasury stock	(784)	(446)
Stock-based compensation windfall tax benefit	4,226		2,255	
Net cash provided by financing activities	187,115		5,199	
Net increase (decrease) in cash and cash equivalents	84,164		(126,740)
Effect of exchange rate changes on cash and cash equivalents	827		(872)
Cash and cash equivalents, beginning of period	78,709		192,563	
Cash and cash equivalents, end of period	\$ 163,700		\$ 64,951	

Supplemental Disclosure:

Cash paid for:

Income taxes	\$ 2,708	\$ 5,125
Interest	1,965	141

Non-cash investing and financing activities:

Non-