

Dealertrack Technologies, Inc
Form 10-Q
August 11, 2014

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
p ACT OF 1934**

For the quarterly period ended June 30, 2014

OR

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

Commission File Number 000-51653

Dealertrack Technologies, Inc.

(Exact name of Registrant as specified in its charter)

Delaware

*(State or other jurisdiction of incorporation or
organization)*

52-2336218

(I.R.S. Employer Identification Number)

1111 Marcus Ave., Suite M04

Lake Success, NY 11042

(Address of principal executive offices, including zip code)

(516) 734-3600

(Registrant's telephone number, including area code)

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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 July 31, 2014, 53,892,945 shares of the registrant’s common stock were outstanding.

DEALERTRACK TECHNOLOGIES, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014

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

	June 30, 2014	December 31, 2013
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	\$128,513	\$122,373
Marketable securities	5,131	10,589
Customer funds and customer funds receivable	32,130	25,901
Accounts receivable, net of allowances of \$6,317 and \$6,924, as of June 30, 2014 and December 31, 2013, respectively	100,552	48,349
Deferred tax assets, net	22,938	6,331
Prepaid expenses and other current assets	30,002	21,314
Total current assets	319,266	234,857
Property and equipment, net	83,351	31,866
Investments – cost and equity	36,135	119,318
Software and website development costs, net	77,421	62,513
Intangible assets, net	565,130	136,754
Goodwill	1,052,013	316,130
Deferred tax assets, net	61,501	40,421
Other assets – long-term	24,137	14,616
Total assets	\$2,218,954	\$956,475
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$35,143	\$15,013
Accrued compensation and benefits	24,570	20,645
Accrued liabilities – other	47,984	21,284
Customer funds payable	32,130	25,901
Deferred revenue	14,372	9,958
Deferred tax liabilities	4,277	4,278

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Due to acquirees and notes payable	7,551	2,000
Total current liabilities	166,027	99,079
Deferred tax liabilities	222,941	73,193
Deferred revenue	6,875	6,482
Notes payable	8,573	2,000
Long term debt, net	713,149	170,317
Other liabilities	13,119	4,180
Total long-term liabilities	964,657	256,172
Total liabilities	1,130,684	355,251
Commitments and contingencies (Note 17)		
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; 57,042,962 shares issued and 53,793,770 shares outstanding as of June 30, 2014; and 47,154,300 shares issued and 43,995,893 shares outstanding as of December 31, 2013	570	472
Treasury stock, at cost, 3,249,192 shares and 3,158,407 shares as of June 30, 2014 and December 31, 2013, respectively	(58,023)	(53,408)
Additional paid-in capital	1,076,255	571,550
Accumulated other comprehensive income	2,911	3,036
Retained earnings	66,557	79,574
Total stockholders' equity	1,088,270	601,224
Total liabilities and stockholders' equity	\$2,218,954	\$956,475

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands, except per share amounts)		(In thousands, except per share amounts)	
Revenue:				
Net revenue	\$224,767	\$121,782	\$383,575	\$230,841
Operating expenses:				
Cost of revenue	119,461	51,997	209,368	100,207
Research and development	27,136	18,269	51,184	35,899
Selling, general and administrative	74,637	43,887	142,123	86,355
Total operating expenses	221,234	114,153	402,675	222,461
Income (loss) from operations	3,533	7,629	(19,100)	8,380
Interest income	100	117	200	241
Interest expense	(9,837)	(3,345)	(15,747)	(6,709)
Other income, net	129	62	838	128
Gain on sale of investment	—	—	9,828	—
Earnings from equity method investment, net	1,907	1,279	3,532	2,498
(Loss) income before benefit from (provision for) income taxes, net	(4,168)	5,742	(20,449)	4,538
Benefit from (provision for) income taxes, net	2,793	(1,903)	7,432	(733)
Net (loss) income	\$(1,375)	\$3,839	\$(13,017)	\$3,805
Basic net (loss) income per share	\$(0.03)	\$0.09	\$(0.26)	\$0.09
Diluted net (loss) income per share	\$(0.03)	\$0.09	\$(0.26)	\$0.09
Weighted average common stock outstanding (basic)	53,642	43,545	50,514	43,360
Weighted average common stock outstanding (diluted)	53,642	44,881	50,514	44,741

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)		(In thousands)	
Net (loss) income	\$(1,375)	\$3,839	\$(13,017)	\$3,805
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	2,517	(2,257)	(123)	(3,577)
Net change in unrealized gains on securities	—	63	(2)	175
Other comprehensive income (loss), net of tax	2,517	(2,194)	(125)	(3,402)
Total comprehensive income (loss)	\$1,142	\$1,645	\$(13,142)	\$403

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

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

	Six Months Ended June 30,	
	2014	2013
	(In thousands)	
Operating Activities:		
Net (loss) income	\$(13,017)	\$3,805
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	64,172	28,821
Deferred tax benefit	(39,536)	(653)
Stock-based compensation expense	8,416	7,126
Provision for doubtful accounts and sales credits	6,599	5,559
Earnings from equity method investment, net	(3,532)	(2,498)
Deferred compensation	96	84
Stock-based compensation windfall tax benefit	(9,802)	(4,278)
Gain on sale of investment	(9,828)	—
Realized gain on sale of securities	—	(11)
Amortization of debt issuance costs and debt discount	6,810	4,666
Change in contingent consideration	(250)	(500)
Forfeited customer deposits	(708)	—
Amortization of deferred interest	68	636
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(18,819)	(20,535)
Prepaid expenses and other current assets	4,638	(4,185)
Other assets – long-term	(5,115)	7,075
Accounts payable and accrued liabilities	(57,786)	(4,351)
Deferred rent	826	178
Deferred revenue	1,284	453
Other liabilities – long-term		