

DealerTrack Holdings, Inc.  
Form 10-Q  
August 08, 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  
p 1934

**For the quarterly period ended June 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 Holdings, 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**

**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 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, 2012, 42,651,038 shares of the registrant's common stock were outstanding.

**DEALERTRACK HOLDINGS, INC.**  
**FORM 10-Q**  
**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012**

**TABLE OF CONTENTS**

|                                                                                                                       | Page      |
|-----------------------------------------------------------------------------------------------------------------------|-----------|
| <b>PART I. FINANCIAL INFORMATION</b>                                                                                  | <b>3</b>  |
| Item 1. Financial Statements                                                                                          | 3         |
| Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011 (unaudited)                                     | 3         |
| Consolidated Statements of Operations for the three and six months ended June 30, 2012 and 2011 (unaudited)           | 4         |
| Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2012 and 2011 (unaudited) | 5         |
| Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011 (unaudited)                     | 6         |
| Notes to Consolidated Financial Statements (unaudited)                                                                | 7         |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations                         | 22        |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk                                                    | 37        |
| Item 4. Controls and Procedures                                                                                       | 37        |
| <b>PART II. OTHER INFORMATION</b>                                                                                     | <b>38</b> |
| Item 1. Legal Proceedings                                                                                             | 38        |
| Item 1A. Risk Factors                                                                                                 | 38        |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds                                                   | 40        |
| Item 3. Defaults Upon Senior Securities                                                                               | 41        |
| Item 4. Mine Safety Disclosures                                                                                       | 41        |
| Item 5. Other Information                                                                                             | 41        |
| Item 6. Exhibits                                                                                                      | 41        |
| Signatures                                                                                                            | 42        |
| EX-31.1: CERTIFICATION                                                                                                |           |
| EX-31.2: CERTIFICATION                                                                                                |           |
| EX-32.1: CERTIFICATION                                                                                                |           |

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

|                                                                                                                       | June 30,<br>2012                                         | December 31,<br>2011 |
|-----------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|----------------------|
|                                                                                                                       | (In thousands, except<br>share<br>and per share amounts) |                      |
| <b>ASSETS</b>                                                                                                         |                                                          |                      |
| Current assets                                                                                                        |                                                          |                      |
| Cash and cash equivalents                                                                                             | \$216,151                                                | \$ 78,709            |
| Marketable securities                                                                                                 | 37,871                                                   | 46                   |
| Customer funds                                                                                                        | 2,521                                                    | 1,097                |
| Customer funds receivable                                                                                             | 22,336                                                   | 18,695               |
| Accounts receivable, net of allowances of \$4,092 and \$5,102 as of June 30, 2012 and December 31, 2011, respectively | 37,761                                                   | 37,588               |
| Deferred tax assets                                                                                                   | 9,246                                                    | 9,171                |
| Prepaid expenses and other current assets                                                                             | 26,946                                                   | 23,011               |
| <b>Total current assets</b>                                                                                           | <b>352,832</b>                                           | <b>168,317</b>       |
| Marketable securities – long-term                                                                                     | 27,678                                                   | —                    |
| Property and equipment, net                                                                                           | 21,374                                                   | 21,637               |
| Software and website developments costs, net                                                                          | 37,905                                                   | 37,341               |
| Investments (Note 10)                                                                                                 | 130,145                                                  | 89,000               |
| Intangible assets, net                                                                                                | 80,893                                                   | 96,441               |
| Goodwill                                                                                                              | 192,914                                                  | 200,840              |
| Deferred tax assets, net                                                                                              | 32,433                                                   | 34,421               |
| Other assets — long-term                                                                                              | 15,940                                                   | 12,356               |
| <b>Total assets</b>                                                                                                   | <b>\$892,114</b>                                         | <b>\$ 660,353</b>    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                           |                                                          |                      |
| Current liabilities                                                                                                   |                                                          |                      |
| Accounts payable                                                                                                      | \$7,484                                                  | \$ 7,792             |
| Accrued compensation and benefits                                                                                     | 12,487                                                   | 17,915               |
| Accrued liabilities — other                                                                                           | 14,460                                                   | 15,487               |
| Customer funds payable                                                                                                | 24,857                                                   | 19,792               |

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|                                                                                                                                                                                                                                       |                  |                   |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------------|
| Deferred revenue                                                                                                                                                                                                                      | 8,576            | 9,115             |
| Deferred tax liabilities                                                                                                                                                                                                              | 3,448            | 3,443             |
| Capital leases payable                                                                                                                                                                                                                | 144              | 255               |
| <b>Total current liabilities</b>                                                                                                                                                                                                      | <b>71,456</b>    | <b>73,799</b>     |
| Capital leases payable                                                                                                                                                                                                                | 99               | 107               |
| Deferred tax liabilities                                                                                                                                                                                                              | 79,588           | 70,087            |
| Deferred revenue                                                                                                                                                                                                                      | 6,043            | 6,730             |
| Due to acquirees                                                                                                                                                                                                                      | 10,809           | 10,493            |
| Senior convertible notes, net (Note 18)                                                                                                                                                                                               | 158,456          | —                 |
| Other liabilities                                                                                                                                                                                                                     | 4,598            | 4,381             |
| <b>Total long-term liabilities</b>                                                                                                                                                                                                    | <b>259,593</b>   | <b>91,798</b>     |
| <b>Total liabilities</b>                                                                                                                                                                                                              | <b>331,049</b>   | <b>165,597</b>    |
| 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; 45,766,423 shares issued and 42,641,061 shares outstanding as of June 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, 3,125,362 shares and 3,099,193 shares as of June 30, 2012 and December 31, 2011, respectively                                                                                                                | (52,309 )        | (51,567 )         |
| Additional paid-in capital                                                                                                                                                                                                            | 530,611          | 486,284           |
| Accumulated other comprehensive income                                                                                                                                                                                                | 6,193            | 6,363             |
| Retained earnings                                                                                                                                                                                                                     | 76,112           | 53,226            |
| <b>Total stockholders' equity</b>                                                                                                                                                                                                     | <b>561,065</b>   | <b>494,756</b>    |
| <b>Total liabilities and stockholders' equity</b>                                                                                                                                                                                     | <b>\$892,114</b> | <b>\$ 660,353</b> |

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

**DEALERTRACK HOLDINGS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(unaudited)**

|                                                                  | Three Months Ended June 30,              |           | Six Months Ended June 30, |            |
|------------------------------------------------------------------|------------------------------------------|-----------|---------------------------|------------|
|                                                                  | 2012                                     | 2011      | 2012                      | 2011       |
|                                                                  | (In thousands, except per share amounts) |           |                           |            |
| Revenue:                                                         |                                          |           |                           |            |
| Net revenue                                                      | \$ 96,396                                | \$ 89,051 | \$ 188,013                | \$ 166,242 |
| Operating expenses: (1)                                          |                                          |           |                           |            |
| Cost of revenue                                                  | 53,712                                   | 48,565    | 106,862                   | 92,992     |
| Product development                                              | 2,944                                    | 3,118     | 5,938                     | 6,471      |
| Selling, general and administrative                              | 34,067                                   | 31,490    | 68,195                    | 61,975     |
| Total operating expenses                                         | 90,723                                   | 83,173    | 180,995                   | 161,438    |
| Income from operations                                           | 5,673                                    | 5,878     | 7,018                     | 4,804      |
| Interest income                                                  | 184                                      | 84        | 414                       | 198        |
| Interest expense                                                 | (3,208)                                  | (212)     | (4,365)                   | (244)      |
| Other income (expense), net                                      | (926)                                    | 92        | (850)                     | 99         |
| Gain on disposal of subsidiary and sale of other assets (Note 9) | 5,500                                    | —         | 33,193                    | —          |
| Earnings from equity method investment, net                      | 145                                      | —         | 308                       | —          |
| Realized gain on securities                                      | —                                        | 409       | —                         | 409        |
| Income before (provision for) benefit from income taxes, net     | 7,368                                    | 6,251     | 35,718                    | 5,266      |
| (Provision for) benefit from income taxes, net                   | (1,443)                                  | (4,085)   | (12,832)                  | 21,628     |
| Net income                                                       | \$ 5,925                                 | \$ 2,166  | \$ 22,886                 | \$ 26,894  |
| Basic net income per share                                       | \$ 0.14                                  | \$ 0.05   | \$ 0.54                   | \$ 0.66    |
| Diluted net income per share                                     | \$ 0.13                                  | \$ 0.05   | \$ 0.52                   | \$ 0.64    |
| Weighted average common stock outstanding (basic)                | 42,470                                   | 41,203    | 42,286                    | 41,036     |
| Weighted average common stock outstanding (diluted)              | 43,957                                   | 42,550    | 43,839                    | 42,280     |

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

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|                                     | Three Months Ended June 30, |        | Six Months Ended June 30, |        |
|-------------------------------------|-----------------------------|--------|---------------------------|--------|
|                                     | 2012                        | 2011   | 2012                      | 2011   |
| Cost of revenue                     | \$ 590                      | \$ 425 | \$ 1,225                  | \$ 852 |
| Product development                 | 206                         | 187    | 420                       | 372    |
| Selling, general and administrative | 2,586                       | 2,414  | 5,067                     | 4,744  |

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

**DEALERTRACK HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(unaudited)**

|                                                | Three Months Ended June 30, |          | Six Months Ended June 30, |           |
|------------------------------------------------|-----------------------------|----------|---------------------------|-----------|
|                                                | 2012                        | 2011     | 2012                      | 2011      |
|                                                | (In thousands)              |          | (In thousands)            |           |
| Net income                                     | \$ 5,925                    | \$ 2,166 | \$ 22,886                 | \$ 26,894 |
| Other comprehensive income, net of tax         |                             |          |                           |           |
| Foreign currency translation adjustments       | (1,136 )                    | 400      | (156 )                    | 1,581     |
| Unrealized (loss) gain on securities           | (47 )                       | 77       | (14 )                     | 165       |
| Reversal of unrealized gain on securities sold | —                           | (314 )   | —                         | (178 )    |
| Other comprehensive income                     | (1,183 )                    | 163      | (170 )                    | 1,568     |
| Total comprehensive income                     | \$ 4,742                    | \$ 2,329 | \$ 22,716                 | \$ 28,462 |

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



**DEALERTRACK HOLDINGS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(unaudited)**

|                                                                                   | Six Months Ended June 30, |            |
|-----------------------------------------------------------------------------------|---------------------------|------------|
|                                                                                   | 2012                      | 2011       |
|                                                                                   | (In thousands)            |            |
| <b>Operating Activities:</b>                                                      |                           |            |
| Net income                                                                        | \$ 22,886                 | \$ 26,894  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |            |
| Depreciation and amortization                                                     | 24,927                    | 24,739     |
| Deferred tax provision (benefit)                                                  | 11,389                    | (23,707 )  |
| Stock-based compensation expense                                                  | 6,712                     | 5,968      |
| Provision for doubtful accounts and sales credits                                 | 3,831                     | 3,331      |
| Earnings from equity method investment, net                                       | (308 )                    | —          |
| Deferred compensation                                                             | 75                        | 100        |
| Stock-based compensation windfall tax benefit                                     | (4,108 )                  | (1,890 )   |
| Gain on disposal of subsidiary and sale of other assets                           | (33,193 )                 | —          |
| Realized gain on securities                                                       | —                         | (409 )     |
| Amortization of debt issuance costs and debt discount                             | 2,981                     | 91         |
| Change in contingent consideration                                                | (900 )                    | —          |
| Change in fair value of warrant                                                   | 1,000                     | —          |
| Amortization of deferred interest                                                 | 164                       | —          |
| Changes in operating assets and liabilities, net of effects of acquisitions:      |                           |            |
| Accounts receivable                                                               | (7,223 )                  | (11,583 )  |
| Prepaid expenses and other current assets                                         | 478                       | (4,086 )   |
| Other assets — long-term                                                          | 4,092                     | 1,362      |
| Accounts payable and accrued expenses                                             | (6,130 )                  | (8,237 )   |
| Deferred rent                                                                     | 7                         | 67         |
| Deferred revenue                                                                  | 613                       | 1,427      |
| Other liabilities — long-term                                                     | (743 )                    | 147        |
| Net cash provided by operating activities                                         | 26,550                    | 14,214     |
| <b>Investing Activities:</b>                                                      |                           |            |
| Capital expenditures                                                              | (4,340 )                  | (5,571 )   |
| Capitalized software and website development costs                                | (9,223 )                  | (9,657 )   |
| Proceeds from sale of Chrome-branded asset                                        | 5,500                     | —          |
| Purchases of marketable securities                                                | (70,175 )                 | —          |
| Proceeds from sales and maturities of marketable securities                       | 4,500                     | 2,485      |
| Cash contributed for equity method investment                                     | (1,750 )                  | —          |
| Payment for acquisition of businesses, net of acquired cash                       | —                         | (128,311 ) |
| Net cash used in investing activities                                             | (75,488 )                 | (141,054 ) |

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Financing Activities:

|                                                                            |            |            |
|----------------------------------------------------------------------------|------------|------------|
| Principal payments on capital lease obligations and financing arrangements | (445 )     | (299 )     |
| Proceeds from the exercise of employee stock options                       | 5,075      | 4,386      |
| Proceeds from employee stock purchase plan                                 | 376        | 340        |
| 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                                                | (742 )     | (441 )     |
| Stock-based compensation windfall tax benefit                              | 4,108      | 1,890      |
| Net cash provided by financing activities                                  | 186,449    | 3,967      |
| Net increase (decrease) in cash and cash equivalents                       | 137,511    | (122,873 ) |
| Effect of exchange rate changes on cash and cash equivalents               | (69 )      | 371        |
| Cash and cash equivalents, beginning of period                             | 78,709     | 192,563    |
| Cash and cash equivalents, end of period                                   | \$ 216,151 | \$ 70,061  |

Supplemental Disclosure:

Cash paid for:

|                                                                                |          |          |
|--------------------------------------------------------------------------------|----------|----------|
| Income taxes                                                                   | \$ 2,041 | \$ 4,465 |
| Interest                                                                       | 260      | 32       |
| Non-cash investing and financing activities:                                   |          |          |
| Non-cash consideration issued for investment in Chrome Data Solutions (Note 9) | 42,301   | —        |
| Accrued capitalized hardware, software and fixed assets                        | 1,364    | 1,004    |
| Assets acquired under capital leases and financing arrangements                | 725      | 34       |
| Capitalized stock-based compensation                                           | —        | —        |