

DIGITAL INSIGHT CORP  
Form 10-Q  
May 10, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**FORM 10-Q**

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

For the quarterly period ended March 31, 2006

Commission file number 000-27459

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**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)

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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 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):

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Large accelerated filer  Accelerated filer  Non-accelerated filer

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 April 30, 2006, there were 34,551,669 shares of the registrant's \$0.001 par value common stock outstanding.

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS  
DIGITAL INSIGHT CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except share information)**

	<b>March 31, 2006</b>	<b>December 31, 2005</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 44,466	\$ 50,734
Short-term investments	72,852	65,421
Accounts receivable, net of allowance for doubtful accounts of \$1,094 and \$1,025	28,765	32,583
Accumulated implementation costs	2,266	2,125
Deferred tax asset, net	21,894	18,987
Prepaid and other current assets	3,958	3,932
<b>Total current assets</b>	<b>174,201</b>	<b>173,782</b>
Property and equipment, net of accumulated depreciation of \$72,692 and \$69,705	29,841	29,609
Goodwill	136,382	136,382
Intangible assets, net of accumulated amortization of \$39,859 and \$38,782	8,311	9,388
Accumulated implementation costs	4,375	3,883
Long-term investments	5,249	8,802
Deferred tax asset, net	15,490	17,440
Other assets	6,062	6,116
<b>Total assets</b>	<b>\$ 379,911</b>	<b>\$ 385,402</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 8,731	\$ 8,144
Accrued compensation and related benefits	9,722	6,504
Customer deposits and deferred revenue	16,410	16,250
Accrued expenses and other liabilities	9,040	8,931
Current portion of capital lease obligation	276	262
Tax contingency reserve	5,275	5,158
<b>Total current liabilities</b>	<b>49,454</b>	<b>45,249</b>
Customer deposits and deferred revenue	8,346	7,843
Capital lease obligations	1,170	1,241
<b>Total liabilities</b>	<b>58,970</b>	<b>54,333</b>
Commitments and contingencies (Note 5)		
Stockholders' equity:	38	37

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Common stock, \$.001 par value; 100,000,000 shares authorized; 38,177,240 shares issued and 34,179,355 shares outstanding at March 31, 2006 and 37,221,490 shares issued and 34,488,234 shares outstanding at December 31, 2005

Additional paid-in capital	491,385	472,729
Treasury stock, at cost; 3,736,096 shares at March 31, 2006 and 2,544,509 shares at December 31, 2005	(89,543)	(50,091)
Deferred stock-based compensation		(4,466)
Accumulated deficit	(80,939)	(87,140)
<b>Total stockholders' equity</b>	<b>320,941</b>	<b>331,069</b>
Total liabilities and stockholders' equity	\$ 379,911	\$ 385,402

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

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**DIGITAL INSIGHT CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited, in thousands, except per share data)

	Three Months Ended March 31,	
	2006	2005
Revenues	\$ 57,890	\$ 51,747
Cost of revenues (including stock-based compensation of \$353 and \$0 for the three months ended March 31, 2006 and 2005, respectively)	25,303	22,339
Gross profit	32,587	29,408
Operating expenses:		
Sales, general and administrative (including stock-based compensation of \$1,322 and \$39 for the three months ended March 31, 2006 and 2005, respectively)	13,303	13,106
Research and development (including stock-based compensation of \$458 and \$0 for the three months ended March 31, 2006 and 2005, respectively)	6,966	5,354
Amortization of intangible assets	1,077	2,025
Restructuring charge	1,243	
Total operating expenses	22,589	20,485
Income from operations	9,998	8,923
Interest and other income, net	1,153	537
Income before provision for income taxes	11,151	9,460
Provision for income taxes	4,950	3,737
Net income	\$ 6,201	\$ 5,723
Basic net income per share	\$ 0.18	\$ 0.16
Diluted net income per share	\$ 0.17	\$ 0.16
Shares used to compute basic net income per share	34,492	35,560
Shares used to compute diluted net income per share	35,555	35,990

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

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**DIGITAL INSIGHT CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited, in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 6,201	\$ 5,723
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	3,227	3,028
Amortization of intangible assets	1,077	2,025
Stock-based compensation	2,133	39
Deferred income taxes	(1,371)	2,943
Loss on disposition of property and equipment	24	47
Restructuring, net of cash paid	1,008	
Income tax benefit on stock options exercised	5,520	212
Excess tax benefits from stock-based compensation	(3,548)	
Changes in operating assets and liabilities:		
Accounts receivable	3,818	4,487
Accumulated implementation costs	(633)	262
Prepaid and other current assets	(26)	(1,142)
Other assets	468	26
Accounts payable	829	(2,284)
Accrued compensation and related benefits	2,720	979
Customer deposits and deferred revenue	663	(613)
Other liabilities and tax contingency reserve	193	667
<b>Net cash provided by operating activities</b>	<b>22,303</b>	<b>16,399</b>
<b>Cash flows from investing activities:</b>		
Purchases of investments:		
Held-to-maturity	(34,711)	(37,846)
Available-for sale		(10,801)
Proceeds from maturity of investments:		
Held-to-maturity	30,029	23,131
Available for sale	804	1,065
Purchase of property and equipment	(4,225)	(2,642)
<b>Net cash used in investing activities</b>	<b>(8,103)</b>	<b>(27,093)</b>
<b>Cash flows from financing activities:</b>		
Principal payments on capital leases	(57)	
Acquisition of treasury stock	(39,452)	(21,187)
Proceeds from issuance of common stock	15,493	2,660
Excess tax benefits from stock-based compensation	3,548	
<b>Net cash used in financing activities</b>	<b>(20,468)</b>	<b>(18,527)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(6,268)</b>	<b>(29,221)</b>
Cash and cash equivalents, beginning of period	50,734	64,682

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Cash and cash equivalents, end of period	\$ 44,466	\$ 35,461
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### Supplementary disclosures of cash flow information:

Cash paid during the period for interest	\$ 26	\$
Cash paid during the period for income taxes	\$ 121	\$ 856

### Non-cash items:

Accrued property and equipment	\$ 209	\$ 436
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The accompanying notes are an integral part of these condensed consolidated financial statements.



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(Unaudited, in thousands, except share data)

	Common Stock		Additional	Treasury	Treasury	Deferred	Accumulated	Total
	Shares	Amount	Paid-In	Shares	Stock, at	Stock-Based	Deficit	Stockholders
			Capital		cost	Compensation		Equity
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)			4,466		
Stock options exercised	880,833	1	15,492					15,493
Issuance of restricted stock	74,917							
Tax benefit on stock options exercised			5,520					5,520
Purchase of treasury stock, at cost				(1,190,900)	(39,452)			(39,452)
Stock-based compensation			2,133					2,133
Restricted stock forfeitures and other			(23)	(687)				(23)
Net income								