OPENTABLE INC
Form 10-Q
November 05, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x **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

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

For the transition period from to

Commission File Number: 001-34357

OPENTABLE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**94-3374049** (I.R.S. Employer Identification No.)
799 Market Street, 4th Floor, San Francisco, CA (Address of Principal Executive Offices)	**94103** (Zip Code)

(415) 344-4200

(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 x No o

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Web site, 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 time period that the registrant was required to submit and post such files). Yes x No o

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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of November 2, 2012, 22,723,400 shares of the registrant s common stock were outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

OPENTABLE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 85,158,000	$ 36,519,000
Short-term investments	978,000	13,411,000
Accounts receivable, net of allowance for doubtful accounts of $1,696,000, and $1,315,000 at September 30, 2012 and December 31, 2011	19,186,000	18,795,000
Prepaid expenses and other current assets	3,083,000	2,708,000
Deferred tax asset	10,960,000	11,238,000
Total current assets	119,365,000	82,671,000
Property, equipment and software, net	19,206,000	16,150,000
Goodwill	46,318,000	42,312,000
Intangibles, net	15,828,000	16,403,000
Deferred tax asset	11,925,000	5,466,000
Other assets	1,088,000	813,000
TOTAL ASSETS	$ 213,730,000	$ 163,815,000
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 2,437,000	$ 2,210,000
Accrued expenses	6,998,000	4,794,000
Accrued compensation	4,992,000	4,518,000
Deferred revenue	1,597,000	1,752,000
Deferred tax liability	107,000	
Dining rewards payable	25,899,000	20,827,000
Total current liabilities	42,030,000	34,101,000
Deferred revenue non-current	2,141,000	2,249,000

Deferred tax liability		3,933,000		3,915,000
Income tax liability		14,849,000		13,215,000
Other long-term liabilities		71,000		108,000
Total liabilities		63,024,000		53,588,000
COMMITMENTS AND CONTINGENCIES (Note 5)				
STOCKHOLDERS EQUITY:				
Common stock, $0.0001 par value 100,000,000 shares authorized; 24,237,039 and 24,009,404 shares issued, 22,715,819 and 22,709,857 shares outstanding at September 30, 2012 and December 31, 2011		2,000		2,000
Additional paid-in capital		201,606,000		171,465,000
Treasury stock, at cost (1,521,220 and 1,299,547 shares at September 30, 2012 and December 31, 2011)		(50,673,000)		(41,963,000)
Accumulated other comprehensive income (loss)		905,000		(1,634,000)
Accumulated deficit		(1,134,000)		(17,643,000)
Total stockholders equity		150,706,000		110,227,000
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	213,730,000	$	163,815,000

See notes to condensed consolidated financial statements.

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OPENTABLE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
REVENUES	$ 39,738,000	$ 34,356,000	$ 118,665,000	$ 102,353,000
COSTS AND EXPENSES:				
Operations and support	10,544,000	9,916,000	31,402,000	29,074,000
Sales and marketing	8,216,000	7,477,000	25,559,000	21,692,000
Technology	3,741,000	3,748,000	10,599,000	11,326,000
General and administrative	8,072,000	7,407,000	25,673,000	18,417,000
Total costs and expenses	30,573,000	28,548,000	93,233,000	80,509,000
Income from operations	9,165,000	5,808,000	25,432,000	21,844,000
Other income, net	36,000	23,000	66,000	68,000
Income before taxes	9,201,000	5,831,000	25,498,000	21,912,000
Income tax expense	3,253,000	1,775,000	8,989,000	7,346,000
NET INCOME	$ 5,948,000	$ 4,056,000	$ 16,509,000	$ 14,566,000
Net income per share (See Note 7):				
Basic	$ 0.26	$ 0.17	$ 0.73	$ 0.62
Diluted	$ 0.26	$ 0.17	$ 0.71	$ 0.59
Weighted average shares outstanding:				
Basic	22,641,000	23,695,000	22,585,000	23,530,000
Diluted	23,261,000	24,488,000	23,188,000	24,545,000

See notes to condensed consolidated financial statements.

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OPENTABLE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net Income	$ 5,948,000	$ 4,056,000	$ 16,509,000	$ 14,566,000
Foreign currency translation gain (loss)	2,081,000	(1,631,000)	2,542,000	402,000
Unrealized gain (loss) on investments		(4,000)	(3,000)	3,000
Other comprehensive gain (loss)	2,081,000	(1,635,000)	2,539,000	405,000
COMPREHENSIVE INCOME	$ 8,029,000	$ 2,421,000	$ 19,048,000	$ 14,971,000

See notes to condensed consolidated financial statements (unaudited).

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OPENTABLE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2012	2011
OPERATING ACTIVITIES:		
Net income	$ 16,509,000	$ 14,566,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,635,000	5,842,000
Amortization of intangibles	3,038,000	2,986,000
Provision for doubtful accounts	2,032,000	1,328,000
Stock-based compensation	16,087,000	8,809,000
Write-off of property, equipment and software	253,000	853,000
Deferred taxes	(6,009,000)	162,000
Excess tax benefit related to stock compensation	(9,750,000)	(3,934,000)
Change in contingent liability	(21,000)	(1,085,000)
Changes in operating assets and liabilities:		
Accounts receivable	(2,248,000)	(3,246,000)
Prepaid expenses and other current assets	(622,000)	(942,000)
Accounts payable and accrued expenses	12,774,000	3,691,000
Accrued compensation	455,000	318,000
Deferred revenue	(282,000)	(299,000)
Long-term liabilities	1,404,000	3,015,000
Dining rewards payable	5,063,000	3,958,000
Net cash provided by operating activities	45,318,000	36,022,000
INVESTING ACTIVITIES:		
Purchases of property, equipment and software	(9,893,000)	(7,297,000)
Purchases of investments	(10,315,000)	(27,325,000)
Sales of investments	22,667,000	15,231,000
Acquisition of business	(4,000,000)	
Decrease in restricted cash		176,000
Net cash used in investing activities	(1,541,000)	(19,215,000)
FINANCING ACTIVITIES:		
Excess tax benefit related to stock-based compensation	9,750,000	3,934,000
Proceeds from issuance of common stock upon exercise of employee stock options	3,726,000	4,885,000
Repurchases of common stock	(8,710,000)	
Net cash provided by financing activities	4,766,000	8,819,000
EFFECT OF EXCHANGE RATES ON CASH	96,000	(180,000)

NET INCREASE IN CASH AND CASH EQUIVALENTS		48,639,000		25,446,000
CASH AND CASH EQUIVALENTS Beginning of period		36,519,000		33,444,000
CASH AND CASH EQUIVALENTS End of period	$	85,158,000	$	58,890,000

(Continued)

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OPENTABLE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(Unaudited)

	Nine Months Ended September 30,	
	2012	**2011**
SUPPLEMENTAL DISCLOSURE OF OTHER CASH FLOW INFORMATION:		
Cash paid for income taxes	$ 1,474,000	$ 325,000
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Purchase of property, equipment and software recorded in accounts payable and accrued expenses	$ 266,000	$ 364,000
Vesting of early exercised stock options	$ 1,000	$ 543,000

See notes to condensed consolidated financial statements. (Concluded)

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OPENTABLE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Organization and Description of Business

OpenTable, Inc. (together with its subsidiaries, including toptable.co.uk Ltd. (toptable), OpenTable or the Company), was incorporated on October 13, 1998, and is a Delaware corporation. The Company provides solutions that form an online network connecting reservation-taking restaurants and people who dine at those restaurants. For restaurant customers, the Company provides a proprietary Electronic Reservation Book, or ERB, and Connect. The ERB combines proprietary software and computer hardware to deliver a solution that computerizes restaurant host-stand operations and replaces traditional pen-and-paper reservation books. The ERB streamlines and enhances a number of business-critical functions and processes for restaurants, including reservation management, table management, guest recognition and email marketing. For restaurants that do not require the operational benefits of the ERB, OpenTable offers Connect, a web-based solution that enables participating restaurants to receive reservations from OpenTable websites and mobile applications as well as the websites and mobile applications of OpenTable s partners and restaurant customers. For diners, the Company operates www.opentable.com and www.toptable.co.uk, popular restaurant reservation websites, and also provides a variety of mobile applications. The Company refers to www.opentable.com, www.toptable.co.uk and related websites as the OpenTable websites. The OpenTable websites and mobile applications enable diners to find, choose and book tables at restaurants on the OpenTable network that use the ERB and Connect in real time, overcoming the inefficiencies associated with the traditional process of reserving by phone.

Certain Significant Risks and Uncertainties

The Company operates in a dynamic industry, and accordingly, can be affected by a variety of factors. For example, management of the Company believes that changes in any of the following areas could have a significant negative effect on the Company s future financial position, results of operations or cash flows: the ability to maintain an adequate rate of growth; the impact of the current economic climate on its business; the ability to effectively manage its growth; the ability to attract new restaurant customers; the ability to increase the number of visitors to its websites and convert those visitors into diners; and the ability to retain existing restaurant customers and diners or encourage repeat reservations.

2. Summary of Significant Accounting Policies

Principles of Consolidation

These condensed consolidated financial statements include the accounts of OpenTable, Inc. and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in the consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, as filed on February 24, 2012 with the SEC (the 2011 Annual Report). The condensed consolidated balance sheet as of December 31, 2011, included herein was derived from the audited consolidated financial statements as of that date but does not include all disclosures required by GAAP, including notes to the consolidated financial statements.

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The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments (consisting only of normal recurring adjustments) necessary for the fair presentation of the Company s statement of financial position at September 30, 2012 and December 31, 2011, and the Company s results of operations for the three and nine months ended September 30, 2012 and 2011, and its cash flows for the nine months ended September 30, 2012 and 2011. The results for the three and nine months ended September 30, 2012 are not necessarily indicative of the results to be expected for any future period. All references to September 30, 2012 or to the three or nine months ended September 30, 2012 and 2011 in the notes to the condensed consolidated financial statements are unaudited.

Acquisition of Treat Technologies

In August 2012, the Company acquired Treat Technologies, Inc. (Treat), a provider of the Treatful-branded online gift card solutions for restaurants, for a purchase price of approximately $4,000,000 in cash. The Company recorded $2,264,000 of goodwill and $1,800,000 of identifiable intangible assets in connection with the acquisition which is being accounted for as a business combination. The Company has included the effects of the transaction within the results of operations prospectively from August 3, 2012, the date of acquisition. Pro forma financial information for this business combination has not been presented, as the effects were not material to the Company s historical consolidated financial statements.

Use of Estimates

The preparation of the Company s financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. These estimates are based on information available as of the date of the financial statements; therefore, actual results could differ from those estimates.

Recently Issued Accounting Standards

In June 2011, the FASB issued Topic 220 *Presentation of Comprehensive Income* (Topic 220). Topic 220 eliminates the option to report other comprehensive income and its components in the statement of changes in equity. Topic 220 requires that all non-owner changes in stockholders equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The amended guidance, which must be applied retroactively, is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with earlier adoption permitted. The adoption of this standard changed the presentation of the Company s consolidated financial statements but had no effect on the reported amounts of comprehensive net income.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, Intangibles-Goodwill and Other (Topic 350) *Testing Goodwill for Impairment*. Topic 350 is intended to simplify goodwill impairment testing by adding a qualitative review step to assess whether the quantitative impairment analysis under the Standard is necessary. Topic 350 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. Topic 350 is effective for interim and annual periods beginning after December 15, 2011. The Company performs its annual impairment testing of goodwill in the third quarter of each year. For the test conducted as of August 31, 2012, the Company elected to bypass the qualitative assessment and perform only the quantitative assessment. The application of this Standard did not have an impact on the Company s reported results of operations.

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3. Short-Term Investments and Fair Value Measurements

At September 30, 2012, short-term investments consisted entirely of certificates of deposit with an amortized cost and estimated fair market value of $978,000. Short-term investments as of December 31, 2011 are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Market Value
At December 31, 2011:				
U.S. government and agency securities	$ 10,538,000	$ 3,000	$ (1,000)	$ 10,540,000
Certificates of deposit	2,871,000			2,871,000
Total	$ 13,409,000	$ 3,000	$ (1,000)	$ 13,411,000

As of September 30, 2012, certain investments with a total estimated fair value of $487,000 had maturity dates of greater than one year. As of December 31, 2011, there were no investments that had maturity dates of greater than one year.

The Company records its financial assets and liabilities at fair value. The accounting standard for fair value provides a framework for measuring fair value, and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting standard establishes a three-tier hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- ***Level 1*** Quoted prices in active markets for identical assets or liabilities. The Company considers a market to be active when transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

- ***Level 2*** Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- ***Level 3*** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The valuation of Level 3 investments requires the use of significant management judgments or estimation.

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In accordance with Topic 820 *Fair Value Measurements and Disclosures*, the following table represents the Company s fair value hierarchy for its financial assets:

	September 30, 2012			December 31, 2011		
	Aggregate Fair Value	Level 1	Level 2	Aggregate Fair Value	Level 1	Level 2
U.S. government and agency securities	$	$	$	$ 10,540,000	$	$ 10,540,000
Certificates of deposit	978,000		978,000	2,871,000		2,871,000
Total short-term investments	$ 978,000	$				