

DealerTrack Holdings, Inc.  
Form 10-K/A  
September 24, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K/A  
Amendment No. 2

(Mark One)

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

For the fiscal year ended December 31, 2008

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-51653

DEALERTRACK HOLDINGS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of  
Incorporation or Organization)

52-2336218

(I.R.S. 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)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$0.01 Par Value Per Share

(Title of each class)

The NASDAQ Stock Market, LLC

(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes  No

Indicate by a check mark whether the Registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for 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 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 period that the registrant was required to submit and post such files). Yes

No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information

statements incorporated by reference in Part III of this Form 10-K/A or an amendment to this Form 10-K.

Edgar Filing: DealerTrack Holdings, Inc. - Form 10-K/A

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                      Non-accelerated filer o                      Smaller reporting company o  
accelerated filer                      o  
p

(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  
o No p

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$535 million (based on the closing price for the registrant's common stock on the NASDAQ Global Market of \$14.11 per share).

As of August 31, 2009, 40,376,269 shares of the registrant's common stock were outstanding.

**EXPLANATORY NOTE**

This Amendment No. 2 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 is filed solely to clarify a typographical error that resulted in our auditor's report being dated incorrectly in Item 8 of Part II of our Form 10-K. This Amendment corrects the audit report to date it appropriately. Except as described above, no other amendments are being made to the Annual Report on Form 10-K. This Amendment No. 2 does not reflect events occurring after the filing of the Form 10-K or modify or update the disclosure contained therein in any way other than as required to reflect the amendments discussed above.

**PART III**

Item 8. Financial Statements and Supplementary Data	2
---	---

**PART IV**

Item 15. Exhibits	39
-------------------	----

**PART II**

**Item 8. *Financial Statements and Supplementary Data***

**INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE**

	<b>Page</b>
<b>DEALERTRACK HOLDINGS, INC.:</b>	
<u>Report of Independent Registered Public Accounting Firm</u>	3
<u>Consolidated Balance Sheets</u>	4
<u>Consolidated Statements of Operations</u>	5
<u>Consolidated Statements of Cash Flows</u>	6
<u>Consolidated Statements of Stockholders' Equity and Comprehensive Income</u>	8
<u>Notes to Consolidated Financial Statements</u>	11
<u>Schedule II - Valuation and Qualifying Accounts</u>	38

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of DealerTrack Holdings, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of DealerTrack Holdings, Inc. and its subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and the financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Part II, Item 9A in this Annual Report on Form 10-K. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As described in Note 3 to the consolidated financial statements, the Company changed the manner in which it accounts for fair value measurements of its investments in 2008.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York  
February 24, 2009



**DEALERTRACK HOLDINGS, INC.  
CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(In thousands, except share and per share amounts)</b>	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 155,456	\$ 50,564
Short-term investments	43,350	169,580
Accounts receivable, net of allowances of \$1,848 and \$2,615 at December 31, 2008 and 2007, respectively	18,462	26,957
Prepaid expenses and other current assets	9,624	7,305
Deferred tax assets	2,195	3,827
Restricted cash	142	
Total current assets	229,229	258,233
Long-term investments	4,392	
Property and equipment, net	13,448	12,792
Software and web site developments costs, net	12,705	10,771
Intangible assets, net	44,405	69,528
Goodwill	114,886	117,702
Restricted cash	250	540
Deferred taxes and other long-term assets	17,900	13,360
Total assets	\$ 437,215	\$ 482,926
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities		
Accounts payable	\$ 4,488	\$ 4,762
Accrued compensation and employee benefits	7,850	12,527
Accrued other	11,385	11,387
Deferred revenues	5,609	4,016
Due to acquirees	1,740	2,251
Capital leases payable	360	480
Total current liabilities	31,432	35,423
Capital leases payable long-term	454	1,076
Due to acquirees long-term	682	1,280
Deferred tax liabilities long-term	2,477	2,800

Edgar Filing: DealerTrack Holdings, Inc. - Form 10-K/A

Deferred revenue and other long-term liabilities	5,950	3,985
Total liabilities	40,995	44,564
Commitments and contingencies (Note 15)		
Stockholders' equity		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized and no shares issued and outstanding at December 31, 2008 and 2007, respectively		
Common stock, \$0.01 par value; 175,000,000 shares authorized; 42,841,737 shares issued and 39,833,616 shares outstanding at December 31, 2008; and 42,556,925 shares issued and 42,552,723 shares outstanding at December 31, 2007	428	426
Treasury stock, at cost, 3,008,121 and 4,202 shares at December 31, 2008 and 2007, respectively	(50,061)	(139)
Additional paid-in capital	428,771	413,428
Deferred stock-based compensation (APB 25)	(446)	(2,056)
Accumulated other comprehensive income	(2,730)	8,181
Retained earnings	20,258	18,522
Total stockholders' equity	396,220	438,362
Total liabilities and stockholders' equity	\$ 437,215	\$ 482,926

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

**DEALERTRACK HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(In thousands, except per share and share amounts)</b>		
<b>Revenue</b>			
Net revenue (1)	\$ 242,706	\$ 233,845	\$ 173,272
<b>Operating costs and expenses</b>			
Cost of revenue (1)(2)	113,731	99,631	70,843
Product development (2)	11,658	9,808	9,153
Selling, general and administrative (2)	110,265	96,875	72,537
Total operating costs and expenses	235,654	206,314	152,533
Income from operations	7,052	27,531	20,739
Interest income	4,720	5,606	4,289
Interest expense	(324)	(355)	(268)
Other income, net	205	4	1,373
Impairment of auction rate securities (Note 3)	(5,956)		
Income before provision for income taxes	5,697	32,786	26,133
Provision for income taxes, net	(3,961)	(13,034)	(6,797)
Net income	\$ 1,736	\$ 19,752	\$ 19,336
Basic net income per share	\$ 0.04	\$ 0.50	\$ 0.54
Diluted net income per share	\$ 0.04	\$ 0.48	\$ 0.51
Weighted average shares outstanding	40,461,896	39,351,138	36,064,796
Weighted average shares outstanding assuming dilution	41,673,007	41,198,773	37,567,488

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(In thousands)</b>		
(1) Related party revenue	\$ 2,419	\$ 2,425	\$ 33,380
Related party cost of revenue	9	38	1,840
(2) Stock-based compensation expense			

recorded for the  
years ended  
December 31,  
2008, 2007 and  
2006 was  
classified as  
follows:

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(In thousands)</b>		
Cost of revenue	\$ 2,497	\$ 2,022	\$ 1,115
Product development	712	589	361
Selling, general and administrative	10,782	8,295	9,200

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

**DEALERTRACK HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
<b>Cash flows from operating activities</b>			
Net income	\$ 1,736	\$ 19,752	\$ 19,336
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	40,076	38,479	25,915
Deferred tax benefit	(2,051)	(4,631)	(11,600)
Stock-based compensation expense	13,991	10,906	10,676
Provision for doubtful accounts and sales credits	9,639	6,767	4,838
Loss (gain) on sale of property and equipment		17	(53)
Amortization of bond premium	132		
Amortization of deferred interest	178	187	175
Non cash deferred compensation	264	294	214
Amortization of bank financing costs	30	122	124
Stock-based compensation windfall tax benefit	(418)	(6,995)	(2,317)
Impairment of auction rate securities	5,956		
Changes in operating assets and liabilities, net of effects of acquisitions			
Trade accounts receivable	(1,556)	(11,139)	(9,290)
Accounts receivable related party	(78)	166	4,988
Prepaid expenses and other current assets	(2,928)	(1,286)	(501)
Accounts payable and accrued expenses	(6,678)	3,905	4,878
Accounts payable related party			(2,021)
Deferred revenue and other current liabilities	1,650	567	(193)
Other long-term liabilities	1,501	19	180
Deferred rent	473	86	357
Other long-term assets	(423)	(290)	(217)
Net cash provided by operating activities	61,494	56,926	45,489
<b>Cash flows from investing activities</b>			
Capital expenditures	(6,502)	(7,189)	(3,228)
Funds released from escrow and other restricted cash	149		50
Purchase of investments	(549,159)	(554,445)	(214,950)
Sale of investments	664,932	508,980	90,835
Capitalized software and web site development costs	(8,560)	(6,474)	(3,636)
Proceeds from sale of property and equipment	3	8	58
Payment for acquisition of business and intangible assets, net of acquired cash	(5,989)	(109,605)	(37,519)

Edgar Filing: DealerTrack Holdings, Inc. - Form 10-K/A

Net cash provided by (used in) investing activities	94,874	(168,725)	(168,390)
<b>Cash flows from financing activities</b>			
Principal payments on capital lease obligations	(742)	(229)	(394)
Proceeds from the exercise of employee stock options	951	4,009	2,685
Proceeds from employee stock purchase plan	1,691	1,779	849
Purchase of treasury stock	(49,922)	(108)	(31)
Proceeds from public offerings, net of expenses		102,192	61,617
Principal payments on notes payable	(212)	(422)	(315)
Stock-based compensation expense windfall tax benefit	418	6,995	2,317
Other			12
Net cash (used in) provided by financing activities	(47,816)	114,216	66,740
Net increase (decrease) in cash and cash equivalents	108,552	2,417	(56,161)
Effect of exchange rate changes on cash and cash equivalents	(3,660)	1,067	(23)
Beginning of year	50,564	47,080	103,264
End of year	\$ 155,456	\$ 50,564	\$ 47,080

**Year Ended December 31,**  
**2008**                      **2007**                      **2006**  
(In thousands)

**Supplemental disclosure**

## Non cash investing and financing activities:

Assets acquired under capital leases	\$		\$	219	\$	
Acquisition of capitalized software through note payable		867				2,608
Accrued capitalized hardware, software and fixed assets		795		1,186		1,133
Goodwill adjustment		2,699		620		494
Payable for acquired intangible assets		500				
Deferred compensation expense reversal to equity		264		360		325
Cash paid for:						
Income taxes	\$	6,995	\$	15,308	\$	13,707
Interest		128		153		82

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

**DEALERTRACK HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND  
COMPREHENSIVE INCOME**

	Preferred Stock		Common Stock		Additional Paid-In Capital		Accumulated Other Comprehensive Income (AOCI)		Retained Earnings		Total	
	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares
<b>Balance as of January 1, 2006</b>	\$ 35,379,717	\$ 354	\$ 214,471		\$ (7,745)		\$ 157		\$ (20,566)		\$ 186,671	
Exercise of stock options		387,748		4								2,685
Directors deferred compensation stock units		14,917										324
Issuance of common stock under employee stock purchase plan		42,137										849
Compensation expense related to the employee stock purchase plan												150
Compensation expense related to the departure of an executive												5,004
Tax benefit from the exercise of stock options and restricted common stock												2,317
Foreign currency translation adjustment												(120)
				1,219		(31)						(31)

Treasury stock					
Issuance of restricted common stock grants	784,250	8	(7)		1
Restricted common stock grant reversal			(355)	355	
Stock-based compensation expense (APB 25)				1,877	1,877
Stock-based compensation expense (FAS 123(R))			2,011		2,011
Restricted common stock-based compensation expense (APB 25)				472	472
Restricted common stock-based compensation expense (FAS 123(R))			1,162		1,162
Options and restricted share cancellations			(625)	625	
Issuance of common stock public offering	2,750,000	27	61,590		61,617
Other			30	(18)	12

	Preferred Stock		Common Stock		Common Stock, In Treasury		Additional Paid-In Capital		Accumulated Other Comprehensive Income (Deficit)		Retained Earnings		Total Stockholders' Equity		Comprehensive Income
	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Compensation	Income	Deficit	Accumulated	Stockholders' Equity	Income		
Net income											19,336	19,336		19,336	
Comprehensive income															\$ 19,216
<b>Balance as of December 31, 2006</b>	\$	39,358,769	\$ 393	1,219	\$ (31)		\$ 289,490	\$ (4,322)	\$ 37	\$ (1,230)	\$ 284,337				
Exercise of stock options		633,320	6				4,003							4,009	
Directors deferred compensation stock units		8,133					294							294	
Officers deferred compensation stock units		2,177					66							66	
Issuances of common stock under employee stock purchase plan		59,202	2				1,777							1,779	
Compensation expense related to the employee stock purchase plan							314							314	
Tax benefit from the exercise of stock options and restricted common stock							6,995							6,995	
Foreign currency translation adjustment									8,144				8,144	8,144	

Edgar Filing: DealerTrack Holdings, Inc. - Form 10-K/A

Treasury stock			2,983	(108)						(108)
Issuance of restricted common stock grants	235,725	2		(2)						
Stock-based compensation expense (APB 25)						1,729				1,729
Stock-based compensation expense (FAS 123(R))					4,604					4,604
Restricted common stock-based compensation expense (APB 25)							397			397
Restricted common stock-based compensation expense (FAS 123(R))					3,862					3,862
Options and restricted share cancellations	(40,401)			(140)	140					
Issuance of common stock public offering	2,300,000	23			102,169					102,192
Other					(4)					(4)
Net income								19,752	19,752	19,752
Comprehensive income										\$ 27,896
<b>Balance as of December 31, 2007</b>	\$ 42,556,925	\$ 426	4,202	\$ (139)	\$ 413,428	\$ (2,056)	\$ 8,181	\$ 18,522	\$ 438,362	

	Preferred Stock		Common Stock		Common Stock, In Treasury	Additional Paid-In Capital	Deferred Compensation	Stock-Based Compensation	Comprehensive Income	Accumulated Other Comprehensive Income (Retained Earnings Deficit)	Total Stockholders' Equity	Comprehensive Income
	Shares	Amount	Shares	Amount								
(In thousands, except share amounts)												
Exercise of stock options		102,182	1			950					951	
Directors deferred compensation stock units		17,638				264					264	
Issuances of common stock under employee stock purchase plan		123,587	1			1,690					1,691	
Compensation expense related to the employee stock purchase plan						299					299	
Tax benefit from the exercise of stock options and restricted common stock						(1)					(1)	
Foreign currency translation adjustment								(10,926)			(10,926)	(10,926)
Treasury stock				3,003,919	(49,922)						(49,922)	
Unrealized gain on auction rate securities								15			15	15
Issuance of restricted common stock grants		49,357										
Stock-based compensation expense (APB 25)							1,196				1,196	
Stock-based compensation expense (FAS)						7,191					7,191	

123(R) Restricted common stock-based compensation expense (APB 25)					342				342
Restricted common stock-based compensation expense (FAS 123(R))				5,022					5,022
Options and restricted share cancellations	(7,952)			(72)	72				
Net income							1,736	1,736	1,736
Comprehensive income									\$ 18,721

**Balance as of  
December 31,  
2008**      \$    42,841,737    \$ 428    3,008,121    \$ (50,061)    \$ 428,771    \$ (446)    \$ (2,730)    \$ 20,258    \$ 396,220

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

**DEALERTRACK HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Business Description**

DealerTrack Holdings, Inc. is a leading provider of on-demand software and data solutions for the automotive retail industry in the United States. Utilizing the Internet, we have built a network connecting automotive dealers with banks, finance companies, credit unions and other financing sources, and other service and information providers, such as aftermarket providers and the major credit reporting agencies. We have established a network of active relationships in the United States, which as of December 31, 2008, consisted of over 19,000 dealers, over 730 financing sources and many other service and information providers to the automotive retail industry. We consider a financing source to be active in our network as of a date if it has accepted credit application data electronically from dealers in the DealerTrack network in that month, including financing sources visible to dealers through drop down menus. Our credit application processing product enables dealers to automate and accelerate the indirect automotive financing process by increasing the speed of communications between these dealers and their financing sources. We have leveraged our leading market position in credit application processing to address other inefficiencies in the automotive retail industry value chain. We believe our proven network provides a competitive advantage for distribution of our software and data solutions. Our dealership management system (DMS) and integrated subscription-based software solutions enable our dealer customers to manage their dealership and operations, compare various financing and leasing options and programs, sell insurance and other aftermarket products, analyze inventory, document compliance with certain laws and execute financing contracts electronically. We have also created efficiencies for financing source customers by providing a comprehensive digital and electronic contracting solution. In addition, we offer data and other products and services to various industry participants, including lease residual value and automobile configuration data.

**2. Summary of Significant Accounting Policies**

The consolidated financial statements of DealerTrack Holdings, Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America.

***Basis of Presentation***

The accompanying consolidated financial statements include the accounts of DealerTrack Holdings, Inc. and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates, and such differences may be material to the consolidated financial statements.

On an on-going basis, we evaluate our estimates, including those related to the accounts receivable allowance, the fair value of financial assets, acquired intangible assets, goodwill, and other assets and liabilities; the useful lives of intangible assets, property and equipment, capitalized software and web site development costs; FAS 123(R) assumptions including volatility, expected term and forfeiture; and income taxes, among others. We base our estimates on historical experience and on other various assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

***Revenue Recognition***

We recognize revenue in accordance with SAB, No. 104, *Revenue Recognition in Financial Statements* and EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables*. In addition, for certain subscription products and services we also recognize revenue under SOP 97-2, *Software Revenue Recognition*.

*Transaction Services Revenue*. Transaction services revenue consists of revenue earned from our financing source customers for each credit application or contract that dealers submit to them. We also earn transaction services revenue from financing source customers for each financing contract executed via our electronic contracting and digital contract



processing solutions, as well as for any portfolio residual value analyses we perform for them. We also earn transaction services revenue from dealers or other service and information providers, such as aftermarket providers, and credit report providers, for each fee-bearing product accessed by dealers.

We offer web-based service to financing sources for the electronic receipt of credit application data and contract data for automotive financing transactions in consideration for a transaction fee. This service is sold based upon contracts that include fixed or determinable prices and that do not include the right of return or other similar provisions or significant post service obligations. Credit application and digital and electronic contracting processing revenue is recognized on a per transaction basis, after customer receipt and when collectability is reasonably assured. Set-up fees charged to the financing sources for establishing connections, if any, are recognized ratably over the expected customer relationship period of four years.

Our credit report service provides our dealer customers the ability to access credit reports from several major credit reporting agencies or resellers online. We sell this service based upon contracts with the customer or report provider, as applicable, that include fixed or determinable prices and that does not include the right of return or other similar provisions or other significant post service obligations. We recognize credit report revenue on a per transaction basis, when services are rendered and when collectability is reasonably assured. We offer these credit reports on both a reseller and an agency basis. We recognize revenue from all but one provider of credit reports on a net basis due to the fact that we are not considered the primary obligor, and recognize revenue on a gross basis with respect to one of the providers as we have the risk of loss and are considered the primary obligor in the transaction.

*Subscription Services Revenue.* Subscription services revenue consists of revenue earned from our customers (typically on a monthly basis) for use of our subscription or license-based products and services. Some of these subscription services enable dealer customers to manage their dealership data and operations, compare various financing and leasing options and programs, sell insurance and other aftermarket products, analyze inventory and execute financing contracts electronically. These subscription services are typically sold based upon contracts that include fixed or determinable prices and that do not include the right of return or other similar provisions or significant post service obligations. We recognize revenue from such contracts ratably over the contract period. We recognize set-up fees, if any, ratably over the expected customer relationship of three years. For contracts that contain two or more products or services, we recognize revenue in accordance with the above policy using relative fair value.

*Other Revenue.* Other revenue consists of revenue primarily earned through training and installations of our DMS suite, shipping commissions earned from our digital contract business and consulting and analytical revenue earned from ALG.

Our revenue is presented net of a provision for sales credits, which is estimated based on historical results, and established in the period in which services are provided.

#### ***Shipping Costs***

Shipping charges billed to customers are included in net revenue, and the related shipping costs are included in cost of revenue.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash and highly liquid investments purchased with original maturity of three months or less.

#### ***Short-term and long-term Investments***

We account for investments in marketable securities in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

Short-term and long-term investments as of December 31, 2008 and 2007 consist of corporate bonds, municipal notes, and auction rate securities (ARS) that are invested in tax-exempt state government obligations and tax-advantaged preferred stock trust securities. We classify investment securities as available for sale, and as a result, report the investments at fair value. For the years ended December 31, 2008, 2007 and 2006, there were unrealized gains of \$15,000, \$0 and \$0 included in accumulated other comprehensive income, respectively. Refer to Note 3 for information regarding the fair value measurement of our ARS.



***Translation of Non-U.S. Currencies***

We have maintained business operations in Canada since January 1, 2004. The translation of assets and liabilities denominated in foreign currency into U.S. dollars is made at the prevailing rate of exchange at the balance sheet date. Revenue, costs and expenses are translated at the average exchange rates during the period. Translation adjustments are reflected in accumulated other comprehensive income on our consolidated balance sheets, while gains and losses resulting from foreign currency transactions are included in our consolidated statements of operations. Amounts resulting from foreign currency transactions were not material for the years ended December 31, 2008, 2007 and 2006.

***Allowance for Doubtful Accounts***

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The amount of the allowance account is based on historical experience and our analysis of the accounts receivable balance outstanding. While credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. If the financial condition of our customers were to deteriorate, resulting in their inability to make payments, additional allowances may be required which would result in an additional expense in the period that this determination was made.

***Property, Equipment and Depreciation***

Property and equipment are stated at cost less accumulated depreciation, which is provided for by charges to income over the estimated useful lives of the assets using the straight-line method. Maintenance and repairs are charged to operating expenses as incurred. Upon sale or other disposition, the applicable amounts of asset cost and accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to income.

***Software and Web Site Development Costs and Amortization***

We account for the costs of software and web site development costs developed or obtained for internal use in accordance with SOP No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* and EITF 00-2, *Accounting for Web Site Development Costs*. We capitalize costs of materials, consultants and payroll and payroll-related costs incurred by employees involved in developing internal use computer software. Costs incurred during the preliminary project and post-implementation stages are charged to expense. Software and web site development costs are amortized on a straight-line basis over estimated useful lives ranging from two to four years. Capitalized software and web site development costs, net were \$12.7 million and \$10.8 million as of December 31, 2008 and 2007, respectively. Amortization expense totaled \$7.4 million, \$6.2 million and \$5.8 million for the years ended December 31, 2008, 2007 and 2006, respectively.

***Goodwill, Other Intangibles and Long-lived Assets***

We record as goodwill the excess of purchase price over the fair value of the tangible and identifiable intangible assets acquired. SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), requires goodwill to be tested for impairment annually as well as when an event or change in circumstance indicates an impairment may have occurred. Goodwill is tested for impairment using a two-step approach. The first step tests for impairment by comparing the fair value of our one reporting unit to its carrying amount to determine if there is a potential goodwill impairment. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value of the goodwill of the reporting unit is less than its carrying value.

SFAS No. 142 requires that goodwill be assessed at the operating segment or lower level. After considering the factors included in SFAS No. 131 and EITF Topic No. D-101, we determined that the components of our one operating segment have similar economic characteristics, nature of products, distribution, shared resources and type of customer such that the components should be aggregated into a single reporting unit for purposes of performing the impairment test for goodwill. We estimate the fair value of our reporting unit using a market capitalization approach. From time to time an independent third-party valuation expert may be utilized to assist in the determination of fair value. Determining the fair value of a reporting unit is judgmental and often involves the use of significant estimates and assumptions. We perform our annual goodwill impairment test on October 1 of every year or when there is a triggering event. Our estimate of the fair value of the reporting unit was in excess of its carrying value as of October 1, 2008 and 2007.

Historically, our market capitalization has been above the carrying value of our consolidated net assets and there has been no indication of potential impairment. The results of our most recent annual assessment performed on October 1, 2008 did not indicate any potential impairment of our goodwill.

Subsequent to our October 1, 2008 goodwill impairment test, our market capitalization was impacted by the volatility in the U.S equity markets. For twelve days between October 24, 2008 and November 24, 2008 and on January 21, 2009 our market capitalization was approximately 5% or less below the carrying value of our consolidated net assets of approximately \$400 million, as of October 1, 2008. The period of October 24, 2008 and November 24, 2008, coincided with two specific events, the stock markets 52 week lows and the Detroit's Big Three automakers first meeting in Washington to plead their case for financial aid from the federal government.

Despite the fact that our market cap traded below our book value for twelve days we do not believe that there has been an impairment based on the duration and depth of the market decline as well as an implied control premium. A control premium is the amount that a buyer is willing to pay over the current market price of a company as indicated by the market capitalization, in order to acquire a controlling interest. The premium is justified by the expected synergies, such as the expected increase in cash flow resulting from the cost savings and revenue enhancements.

Long-lived assets, including property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In reviewing for impairment, the carrying value of such assets is compared to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. If such cash flows are not sufficient to support the asset's recorded value, an impairment charge is recognized to reduce the carrying value of the long-lived asset to its estimated fair value. The determination of future cash flows as well as the estimated fair value of long-lived assets involves significant estimates on the part of management. In order to estimate the fair value of a long-lived asset, we may engage a third party to assist with the valuation. If there is a material change in economic conditions or other circumstances influencing the estimate of future cash flows or fair value, we could be required to recognize impairment charges in the future. We evaluate the remaining useful life of intangible assets on a periodic basis to determine whether events and circumstances warrant a revision to the remaining estimated amortization period. If events and circumstances were to change significantly, such as a significant decline in the financial performance of our business, we could incur a significant non-cash charge to our income statement.

As discussed in Note 7 of our consolidated financial statements, during the fourth quarter of 2008, as a result of a specific event, we recorded an impairment of an intangible asset of approximately \$1.9 million to cost of revenue. Our financial results are impacted by trends in the number of dealers serviced and the level of indirect financing and leasing by our participating financing source customers, number of new and used vehicles sold, special promotions by automobile manufacturers and the level of indirect financing and leasing by captive finance companies not available in our network. We expect to continue to experience challenges due to the ongoing adverse outlook for the credit markets and automobile sales. In addition, volatility in our stock price and declines in our market capitalization could lead to an impairment of the carrying value of our goodwill and other long-lived assets. As a result, we may be required to write-off some of our goodwill or long-lived assets if these conditions persist for an extended period of time.

### ***Income Taxes***

We account for income taxes in accordance with the provisions of SFAS No. 109, *Accounting for Income Taxes*, (SFAS No. 109) which requires deferred tax assets and liabilities to be recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

We adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No 109 of FIN 48*, on January 1, 2007. FIN 48 specifies the way public companies are to account for uncertainty in income tax reporting, and prescribes the methodology for recognizing, reversing, and measuring the tax benefits of a tax position taken, or expected to be taken in a tax return. Our adoption of FIN 48 did not result in any change to the level of our liability for uncertain tax positions, and there was no adjustment to our retained earnings for the cumulative effect of an accounting change. As of December 31, 2007, the total liability for the uncertain tax positions recorded in our balance sheet in accrued other liabilities was \$0.1 million. At December 31,

2008, the total liability for uncertain tax positions recorded in our balance sheet in accrued other liabilities was \$0.5 million.

**Advertising Expenses**

We expense the cost of advertising and promoting our services as incurred. Such costs are included in selling, general and administrative expenses in the consolidated statements of operations and totaled \$1.4 million, \$1.7 million and \$0.9 million for the years ended December 31, 2008, 2007 and 2006, respectively.

**Concentration of Credit Risk**

Our assets that are exposed to concentrations of credit risk consist primarily of cash, cash equivalents, short-term and long-term investments and receivables from clients. We place our cash, cash equivalents, short-term investments and long-term investments with financial institutions. We regularly evaluate the creditworthiness of the issuers in which we invest. Our trade receivables are spread over many customers. We maintain an allowance for uncollectible accounts receivable based on expected collectability and perform ongoing credit evaluations of customers' financial condition. As of December 31, 2008 and 2007 no customer accounted for more than 10% of our accounts receivable. For the three years ended December 31, 2008 no customer accounted for more than 10% of our revenue. Our revenue is generated from customers associated with the automotive industry.

**Net Income per Share**

We computed net income per share in accordance SFAS No. 128, *Earnings per Share*. Under the provisions of SFAS No. 128, basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding, assuming dilution, during the period. The diluted earnings per share calculation assumes that (i) all stock options which are in the money are exercised at the beginning of the period and the proceeds used by us to purchase shares at the average market price for the period and (ii) if applicable, unvested awards that are considered to be contingently issuable shares because they contain either a performance or market condition will be included in diluted earnings per share in accordance with SFAS No. 128 if dilutive and if their conditions (a) have been satisfied at the reporting date or (b) would have been satisfied if the reporting date was the end of the contingency period.

The following table sets forth the computation of basic and diluted net income (in thousands, except share and per share amounts):

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Numerator:</b>			
Net income	\$ 1,736	\$ 19,752	\$ 19,336
<b>Denominator:</b>			
Weighted average common stock outstanding (basic)	40,461,896	39,351,138	36,064,796
Common equivalent shares from options to purchase common stock, restricted common stock and contingent Long-Term Incentive Equity Awards	1,211,111	1,847,635	1,502,692
Weighted average common stock outstanding (diluted)	41,673,007	41,198,773	37,567,488
Basic net income per share	\$ 0.04	\$ 0.50	\$ 0.54
Diluted net income per share (1)	\$ 0.04	\$ 0.48	\$ 0.51

- (1) In accordance with SFAS No. 128, for the years ended December 31, 2008, 2007 and 2006, we have excluded 393,333, 196,666 and 400,000 contingently issued shares, respectively, from diluted weighted average common stock outstanding as their contingent considerations (a) have not been satisfied at the reporting date nor (b) would have been satisfied if the reporting date was the end of the contingency period (Refer to Note 13 for further information).

The following is a summary of the weighted securities outstanding during the respective periods that have been excluded from the diluted net income per share calculation because the effect would have been antidilutive:

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Stock options	2,257,841	476,464	819,500
Restricted common stock	202,513	36,877	59,667
 Total	 2,460,354	 513,341	 879,167

### ***Stock-Based Compensation***

We have three types of stock-based compensation programs: stock options, restricted common stock, and an employee stock purchase plan (ESPP) that allows employees to purchase our common stock at a 15% discount each quarter through payroll deductions.

SFAS 123(R) requires us to measure and recognize the cost of employee services received in exchange for an award of equity instruments. Under the fair value recognition provisions of SFAS 123(R), share-based compensation cost is measured at the grant date, based on the fair value of the award, and recognized as an expense over the requisite service period, net of an estimated forfeiture rate. As permitted by SFAS 123(R), we elected the prospective transition method because we previously applied the minimum value method, as a private company, under FAS 123. Under this method, prior periods are not revised. Upon the adoption of SFAS No. 123(R), we did not have a cumulative effect of accounting change.

Determining the appropriate fair value model and calculating the fair value of the share-based payment awards require the input of highly subjective assumptions, including the expected life of the share-based payment awards, the number of expected options or restricted common stock that will be forfeited prior to the completion of the vesting requirements, and the stock price volatility. We use the Black-Scholes and binomial lattice-based valuation pricing models to value our stock-based awards. Due to our limited public company history, we believe we do not have appropriate historical experience to estimate future exercise patterns or our expected volatility; as such we based our expected life and expected volatility on the historical expected life and historical expected volatility of similar entities whose common shares are publicly traded. Application of alternative assumptions could produce significantly different estimates of the fair value of stock-based compensation and consequently, the related amounts recognized in our consolidated statements of operations. The provisions of SFAS No. 123(R) apply to new or modified stock awards on the effective date.

On December 13, 2005, we commenced the initial public offering of our common stock. Prior to our initial public offering, we applied APB No. 25 and related interpretations for our stock option and restricted common stock grants and we measured awards using the minimum-value method for SFAS 123 pro forma disclosure purposes. APB No. 25 provides that the compensation expense is measured based on the intrinsic value of the stock award at the date of grant. SFAS 123(R) requires that a company that measured awards using the minimum-value method for SFAS 123 prior to the filing of its initial public offering, but adopts SFAS 123(R) as a public company, should not record any compensation amounts measured using the minimum-value method in its financial statements. As a result, we will continue to account for pre-initial public offering awards under APB No. 25 unless they are modified after the adoption of SFAS 123(R).

The following summarizes stock-based compensation expense recognized for the three years ended December 31, 2008, 2007 and 2006 (in thousands):

<b>Year Ended December 31,</b>		
<b>2008</b>	<b>2007</b>	<b>2006</b>

Edgar Filing: DealerTrack Holdings, Inc. - Form 10-K/A

Stock options	\$ 8,331	\$ 6,333	\$ 8,671
Restricted common stock	5,361	4,260	1,855
ESPP	299	313	150
Total stock-based compensation expense	\$ 13,991	\$ 10,906	\$ 10,676

The intrinsic value and/or fair value per stock option and restricted common stock are being recognized as compensation expense over the applicable vesting period.

Stock-based compensation expense recognized for the year ended December 31, 2008 was \$14.0 million, of which \$12.5 million was in accordance with SFAS 123(R) and \$1.5 million in accordance with APB 25. Stock-based compensation expense recognized for the year ended December 31, 2007 was \$10.9 million, of which \$8.8 million was in accordance with SFAS 123(R) and \$2.1 million in accordance with APB 25. Stock-based compensation expense recognized for the year ended December 31, 2006 was \$10.7 million, of which \$3.7 million was in accordance with SFAS 123(R) and \$7.0 million in accordance with APB 25.

Included in the stock-based compensation expense for restricted common stock for the years ended December 31, 2008, 2007 and 2006, was \$1.4 million, \$1.3 million, and zero, respectively, related to the long-term incentive equity awards. Refer to Note 13 for further information regarding our long-term incentive equity awards.

The following is the effect of adopting SFAS No. 123(R) as of January 1, 2006 (in thousands, except per share amounts):

	<b>Year Ended December 31, 2006</b>
Stock options, restricted common stock and employee stock purchase plan compensation expense recognized:	
Cost of revenue	\$ 753
Product development	252
Selling, general and administrative	2,658
Total stock-based compensation expense	3,663
Related deferred income tax benefit	(1,429)
Decrease in net income	\$ 2,234
Decrease in basic earnings per share	\$ 0.06
Decrease in diluted earnings per share	\$ 0.06

For the year ended December 31, 2008, 2007, and 2006, the fair market value of each option grant has been estimated on the date of grant using the Black-Scholes Option Pricing Model with the following SFAS 123(R) weighted-average assumptions:

	<b>Year Ended December 31,</b>					
	<b>2008</b>		<b>2007</b>		<b>2006</b>	
Expected life (in years) (1)	4.33	4.47	4.33	6.25	4.27	6.25
Risk-free interest rate	2.35	3.14%	3.09	4.76%	4.27	5.04%
Expected volatility (2)	47	48.6%	47	47%	47	47%
Expected dividend yield		0%		0%		0%

(1) For the year ended December 31, 2008, the

expected lives of options were determined based on the historical lives of similar entities whose common shares are publicly traded. For the year ended December 31, 2007 and 2006, the expected lives of options were determined based on the simplified method under the provisions of SAB 107. Due to our limited history as a public company, we believe we do not have appropriate historical experience to estimate future exercise patterns. As more information becomes available, we may revise this estimate on a prospective basis.

- (2) For the years ended December 31, 2008, 2007, and 2006, we estimated our expected volatility based on the historical

volatility of  
similar entities  
whose common  
shares are  
publicly traded.

Refer to Note 13 for the weighted-average assumptions used in determining the expense for our Long-Term Incentive Equity Awards.

Using the Black-Scholes Option Pricing Model, the estimated weighted average fair value of an option to purchase one share of common stock granted during 2008, 2007 and 2006 was \$9.61, \$16.47 and \$11.17, respectively.

### **Recent Accounting Pronouncements**

In April 2008, the FASB issued FSP SFAS No. 142-3 *Determination of the Useful Life of Intangible Assets* (FSP SFAS No. 142-3). FSP SFAS No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. The intent of FSP SFAS No. 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under other accounting principles generally accepted in the United States of America. FSP SFAS No. 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The guidance for determining the useful life of a recognized intangible asset is to be applied prospectively, therefore, the impact of the implementation of this pronouncement cannot be determined until the transactions occur. We are currently determining the impact this will have on our AAX acquisition. Certain disclosure requirements shall be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date.

In February 2008, the FASB issued FSP SFAS No. 157-2, *Effective Date of FASB Statement 157*, delaying the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We are currently evaluating the impact that this statement will have on our consolidated financial statements.

In June 2007, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, which clarifies that share-based payment awards that entitle their holders to receive nonforfeitable dividends, or dividend equivalents, before vesting should be considered participating securities. As participating securities, these instruments should be included in the calculation of basic EPS. FSP No. EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Once effective, all prior-periods EPS data presented must be adjusted retroactively to conform with the provision of the FSP. We are currently evaluating the impact that this statement will have on our consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159), which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We have elected not to apply SFAS No. 159 to any of our existing assets or liabilities.

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R), which replaced SFAS No. 141. SFAS No. 141R retains the fundamental requirements of SFAS No. 141, but revises certain principles, including the definition of a business combination, the recognition and measurement of assets acquired and liabilities assumed in a business combination, the accounting for goodwill, and financial statement disclosure. SFAS No. 141R will impact us in the first quarter of 2009 related to our recent acquisition of AAX. We are currently evaluating the impact that this statement will have on our consolidated financial statements.

### **3. Fair Value Measurements**

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157), which defines the fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair values are as follows:

Level 1 Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3 Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

We have segregated all financial assets that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below.

Assets measured at fair value on a recurring basis include the following as of December 31, 2008 (in thousands):

	<b>Quoted Prices in Active Markets (Level 1)</b>		<b>Significant Other Observable Inputs (Level 2)</b>		<b>Significant Unobservable Inputs (Level 3)</b>		<b>Total Carrying Value</b>
Cash equivalents (1)	\$ 124,497	\$		\$			\$ 124,497
Short-term investments (2)(3)	42,490		860				43,350
Long-term investments (4)			2,842		1,550		4,392
<b>Total</b>	<b>\$ 166,987</b>	<b>\$</b>	<b>3,702</b>	<b>\$</b>	<b>1,550</b>		<b>\$ 172,239</b>

- (1) Cash equivalents consist primarily of money market funds with original maturity dates of three months or less, for which we determine fair value through quoted market prices.
- (2) Level 1 short-term investments consist primarily of corporate bonds and municipal notes with maturity dates of one year or less, for which we determine fair value through quoted market prices.
- (3) Level 2 short-term and long-term investments consist of auction rate securities (ARS) invested in tax-advantaged

preferred stock trusts in which the underlying equities are preferred stock of financial institutions. As of December 31, 2008, we have \$3.7 million (net of impairment charge) of ARS invested in tax-advantaged preferred stock trusts. Our investments securities are classified as available for sale and reported at fair value. ARS have long-term underlying maturities, but have interest rates that reset every six months or less. The \$3.7 million invested in tax-advantaged preferred stock trust securities are associated with failed auctions, for which we have been, or expect to be notified that the trust will be dissolved and will distribute the underlying security. As we expect to receive the liquid underlying preferred stock instruments within ninety days of year end, we believe that the most representative measure of fair value of these trusts to be the quoted market prices of the underlying preferred stock instruments. Based upon our assessment we reduced the fair value

of the investments in the preferred stock trusts from \$9.6 million to \$3.7 million and recorded an other-than-temporary charge of \$6.0 million to earnings and an unrealized gain of \$0.1 million to stockholders equity during the year ended December 31, 2008.

- (4) Level 3 long-term investments consist of auction rate securities (ARS) invested in tax-exempt state government obligations that was valued at par. Our intent is not to hold the \$1.6 million of ARS invested in tax-exempt state government obligations to maturity, but rather use the interest reset feature to provide liquidity as necessary.

We reviewed the ARS portfolio for impairment in accordance with FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments* and Staff Accounting Bulletin Topic 5M *Other-Than-Temporary Impairment of Certain Investments in Debt and Equity Securities*, to determine the classification of the impairment as temporary or other-than-temporary. A temporary impairment charge results in an unrealized loss being recorded in the other comprehensive income component of stockholders equity. It occurs if a loss in an investment is determined to be temporary in nature and we have the ability and intent to hold the investment until a recovery in market value takes place. Such an unrealized loss does not reduce our net income for the applicable accounting period because the loss is not viewed as other-than-temporary. An impairment charge is recorded against earnings to the extent we determine that there is a loss of fair value that is other-than-temporary. We have determined that the significant reduction in fair value related to our preferred stock trusts ARS was other-than-temporary and we recorded an impairment charge in our consolidated statements of operations based on a variety of factors, including the significant decline in fair value indicated for the individual investments and the adverse market conditions impacting ARS. Based on our available cash and other investments, we do not currently anticipate that the lack of liquidity caused by failed auctions will have a material adverse effect on our operating cash flows or will affect our ability to operate our business as usual. The valuation of our ARS portfolio is subject to uncertainties that are difficult to predict and we may be required to further reduce the carrying value of these securities, which would result in an additional loss being recognized in our statement of operations, which could be material.



The change in the carrying amount of Level 3 investments for the twelve months ended December 31, 2008 is as follows (in thousands):

Balance as of January 1, 2008	\$	
Reclassification from Level 1 investments to Level 3 investments		169,580
Reclassification from Level 3 investments to Level 2 investments		(3,936)
Net sales of auction rate securities		(158,430)
Other-than-temporary impairment included in net income		(5,664)
Balance as of December 31, 2008	\$	1,550

#### 4. Business Combinations

##### *AutoStyleMart, Inc. (ASM)*

On August 1, 2007, we completed the purchase of all of the outstanding shares of ASM, for a purchase price of \$4.0 million in cash (including direct acquisition costs of \$0.2 million). ASM is a provider of accessories-related solutions to automotive dealerships. Under the terms of the merger agreement, we have a future contingent payment obligation of up to \$11.0 million in cash, based upon the achievement of certain operational targets from February 2008 through February 2011. As the terms of the merger agreement required certain of the former stockholders to remain employees or consultants of DealerTrack for a certain period, a portion of the contingent purchase price if earned, will be classified as compensation, purchase price, or a combination thereof. As of December 31, 2008, we are uncertain if the operational targets for the earnout will be achieved, and as such no compensation expense or purchase price has been recorded in connection with this contingent payment obligation. Quarterly, we will re-assess the probability of the achievement of the operational targets.

This acquisition was recorded under the purchase method of accounting, resulting in the total purchase price being allocated to the assets acquired and liabilities assumed according to their estimated fair values at the date of acquisition as follows (in thousands):

Current assets	\$	69
Property and equipment		32
Intangible assets		4,126
Goodwill		808
Total assets acquired		5,035
Total liabilities assumed		(1,018)
Net assets acquired	\$	4,017

The liabilities assumed includes a \$1.4 million deferred tax liability that relates to the future amortization of acquired intangibles offset by a \$1.0 million deferred tax asset that relates primarily to acquired net operating loss carryovers. We allocated the amounts of intangibles and goodwill based on fair value as follows: approximately \$3.7 million of the purchase price has been allocated to purchased technology and \$0.4 million to non-compete agreements. These intangibles are being amortized on a straight line basis over four to five years based on each intangible's estimated useful life. We also recorded approximately \$0.8 million in goodwill, which represents the remainder of the excess of the purchase price over the fair value of the net assets acquired.

The results of AutoStyleMart were included in our consolidated statements of operations from the date of acquisition.

##### *Arkona, Inc. (Arkona)*

On June 6, 2007, we completed the purchase of all of the outstanding shares of Arkona for a cash purchase price of approximately \$60.0 million (including direct acquisition costs of approximately \$1.0 million). This acquisition expands our product suite with an on-demand dealership management system that can be utilized by franchised, independent and other specialty retail dealers.

This acquisition was recorded under the purchase method of accounting, resulting in the total purchase price being allocated to the assets acquired and liabilities assumed according to their estimated fair values at the date of acquisition as follows (in thousands):

Current assets	\$ 2,842
Property and equipment	2,065
Other assets	191
Intangible assets	25,660
Goodwill	39,091
Total assets acquired	69,849
Total liabilities assumed	(9,876)
Net assets acquired	\$ 59,973

The liabilities assumed includes a \$9.3 million deferred tax liability that relates primarily to the future amortization of acquired intangibles offset by a \$4.5 million deferred tax asset that relates primarily to acquired net operating loss carryovers. Additionally, the liabilities assumed include approximately a \$2.0 million sales tax liability, which had been reduced by \$0.8 million from \$2.8 million during the year ended December 31, 2008. Subsequent to the acquisition we expensed approximately \$0.5 million of additional potential sales tax liability.

We allocated the amounts of intangible assets and goodwill based on fair value appraisals as follows: approximately \$14.7 million of the purchase price has been allocated to purchased technology (five year life), \$9.2 million to customer contracts (four year life) and \$1.8 million to non-compete agreements (one and three year lives). These estimated intangibles are being amortized on a straight line basis over each intangible's estimated useful life. We also recorded approximately \$39.1 million in goodwill, which represents the remainder of the excess of the purchase price over the fair value of the net assets acquired.

The results of Arkona were included in our consolidated statements of operations from the date of acquisition.

***Curomax Corporation and its subsidiaries (collectively, Curomax)***

On February 1, 2007, we completed the purchase of all of the outstanding shares of Curomax pursuant to a shares purchase agreement, dated as of January 16, 2007, for an adjusted cash purchase price of approximately \$40.7 million (including direct acquisition and restructuring costs of approximately \$1.6 million). Curomax is a provider of an Internet-based credit application and contract processing network in Canada. Under the terms of the share purchase agreement, we have future contingent payment obligations of approximately \$1.8 million in cash to be paid out based upon the achievement of certain operational objectives over the subsequent twenty-four months. As of December 31, 2008, we have determined that certain operational conditions have been met and as such, we have recorded a liability of approximately \$1.4 million which was paid out on February 9, 2009. The operational conditions related to the remaining amount of \$0.4 million were determined as of September 30, 2008 not to be achieved, however a subsequent reassessment determined that the operational conditions had been met and the additional \$0.4 million of contingent purchase price was recorded as a liability at December 31, 2008 and will be paid in 2009. The \$1.8 million of additional purchase consideration was recorded as goodwill.

This acquisition was recorded under the purchase method of accounting, resulting in the total purchase price being allocated to the assets acquired and liabilities assumed according to their estimated fair values at the date of acquisition as follows (in thousands):

Current assets	\$ 1,925
Property and equipment	339
Intangible assets	21,670

Goodwill	21,929
Total assets acquired	45,863
Total liabilities assumed	(5,154)
Net assets acquired	\$ 40,709

The liabilities assumed includes a \$3.9 million deferred tax liability that relates primarily to the future amortization of acquired intangibles offset by a \$0.3 million deferred tax asset that relates primarily to acquired net operating loss carryovers.

We allocated the amounts to intangible assets and goodwill based on fair value appraisals as follows: approximately \$17.2 million of the purchase price has been allocated to customer contracts (four year life), \$0.8 million to purchased technology (one and two year lives) and \$3.7 million to non-compete agreements (two year lives). These intangibles are being amortized on a straight-line basis over each intangible's estimated useful life. We also recorded approximately \$21.9 million in goodwill, which represents the remainder of the excess of the purchase price over the fair value of the net assets acquired.

The results of Curomax were included in our consolidated statements of operations from the date of acquisition. On January 1, 2008, Curomax Corporation was amalgamated into DealerTrack Canada, Inc.

**DealerWare L.L.C. (DealerWare)**

On August 1, 2006, we acquired substantially all of the assets and certain liabilities of DealerWare. DealerWare is a provider of aftermarket menu-selling software and other dealership software. DealerWare's software suite also includes reporting and compliance solutions that complement DealerTrack's existing products. The aggregate purchase price was \$5.2 million in cash (including direct acquisition costs of approximately \$0.2 million). This acquisition was recorded under the purchase method of accounting, resulting in the total purchase price being allocated to the assets acquired and liabilities assumed according to their estimated fair values at the date of acquisition as follows (in thousands):

Current assets	\$	12
Intangible assets		2,200
Goodwill		2,942
		5,154
Total assets acquired		5,154
Total liabilities assumed		
		5,154
Net assets acquired	\$	5,154

We allocated the amounts to intangible assets and goodwill based on fair value appraisals as follows: approximately \$1.3 million of the purchase price has been allocated to customer contracts and approximately \$0.9 million to purchased technology. These intangibles are being amortized on a straight-line basis over eighteen months to three years based on each intangible's estimated useful life. We also recorded approximately \$2.9 million in goodwill, which represents the remainder of the excess of the purchase price over the fair value of the net assets acquired.

The results of DealerWare were included in our consolidated statement of operations from the date of the acquisition.

**Global Fax, L.L.C. (Global Fax)**

On May 3, 2006, we acquired substantially all of the assets and certain liabilities of Global Fax. Global Fax provides outsourced document scanning, storage, data entry, and retrieval services for automotive financing customers. The aggregate purchase price was \$24.6 million in cash (including direct acquisition costs of approximately \$0.3 million). This acquisition was recorded under the purchase method of accounting, resulting in the total purchase price being allocated to the assets acquired and liabilities assumed according to their estimated fair values at the date of acquisition as follows (in thousands):

Current assets	\$	1,261
Property and equipment		537
Other long-term assets		14
Intangible assets		11,192

Goodwill	11,718
Total assets acquired	24,722
Total liabilities assumed	(167)
Net assets acquired	\$ 24,555

We allocated the amounts to intangible assets and goodwill based on fair value appraisals as follows: approximately \$5.9 million of the purchase price has been allocated to customer contracts, \$4.4 million to an application processing contract with DHL, \$0.5 million to purchased technology and \$0.4 million to non-compete agreements. These intangibles are being amortized on a straight-line basis over two to five years based on each intangible's estimated useful life. We also recorded approximately \$11.7 million in goodwill, which represents the remainder of the excess of the purchase price over the fair value of the net assets acquired.

The results of Global Fax were included in our consolidated statement of operations from the date of the acquisition. ***WiredLogic, Inc. (DealerWire)***

On February 2, 2006, we acquired substantially all of the assets and certain liabilities of DealerWire. DealerWire allows a dealership to evaluate its sales and inventory performance by vehicle make, model and trim, including information about unit sales, costs, days to turn and front-end gross profit. The aggregate purchase price was \$6.0 million in cash (including direct acquisition costs of approximately \$0.1 million). This acquisition was recorded under the purchase method of accounting, resulting in the total purchase price being allocated to the assets acquired and liabilities assumed according to their estimated fair values at the date of acquisition as follows (in thousands):

Current assets	\$	18
Property and equipment		36
Other long-term assets		5
Intangible assets		2,262
Goodwill		3,734
Total assets acquired		6,055
Total liabilities assumed		(22)
Net assets acquired	\$	6,033

We allocated the amounts to intangible assets and goodwill based on fair value appraisals as follows: approximately \$1.3 million of the purchase price has been allocated to customer contracts, \$0.7 million to purchased technology and \$0.3 million to non-compete agreements. These intangibles are being amortized on a straight-line basis over two years based on each intangible's estimated useful life. We also recorded approximately \$3.7 million in goodwill, which represents the remainder of the excess of the purchase price over the fair value of the net assets acquired.

The results of DealerWire were included in our consolidated statement of operations from the date of the acquisition.

***DealerAccess Purchase Price Adjustment***

In connection with the purchase of DealerAccess, Inc. (DealerAccess) on January 1, 2004, we had a contractual agreement with the seller providing that (i) if the seller or any of its related parties submitted one or more on-line credit applications prior to December 31, 2006 in regard to purchases of vehicles, other than recreational or marine vehicles, to any third-party which offers services in Canada that are similar to the credit application portal services and (ii) the aggregate volume of the funded transactions submitted by the seller or any of its related parties to DealerAccess through the portal during the period beginning January 1, 2004 through December 31, 2006 is less than the volume defined in the purchase agreement, then the purchase price would be adjusted downward.

We were made aware during 2006 that a party related to the seller began submitting on-line electronic credit applications through a competing portal. After the contractual measurement period expired on December 31, 2006, we calculated the purchase price adjustment of \$1.4 million. The adjustment was paid by the seller in February 2007. We recorded this purchase price adjustment to other income during the fourth quarter 2006, as DealerAccess had no remaining goodwill or identifiable intangibles from purchase accounting.

***Automotive Lease Guide Purchase Price Adjustment***

In connection with the purchase of Automotive Lease Guide (ALG) on May 25, 2005, we had a contractual agreement with the seller to pay an additional \$0.8 million per year for 2006 through 2010. There is additional contingent consideration of \$11.3 million that may be paid contingent upon future increases in revenue of ALG and another one of our subsidiaries through December 2009. For the years ended December 31, 2008, 2007 and 2006, we paid \$1.1 million, \$0.5 million and

\$0.2 million of additional consideration. The remaining potential contingent consideration as of December 31, 2008 is \$9.4 million. The additional purchase price consideration was recorded as goodwill on our consolidated balance sheet.

## 5. Related Party Transactions

### *Service Agreements with Related Parties Other Service and Information Providers*

We entered into an agreement with a stockholder who is a service provider for automotive dealers. Automotive dealer customers may subscribe to a product that, among other things, permits the electronic transfer of customer credit application data between our network and the related party's dealer systems. We share a portion of the revenue earned from automobile dealer subscriptions for this product, with this related party, subject to certain minimums. The total amount of expense to this related party for the year ended December 31, 2006 was \$1.7 million. As of December 31, 2006, this service provider did not own at least 5% of our shares and is no longer considered a related party.

We entered into several agreements with a stockholder and its affiliates that is a service provider for automotive dealers. These automotive dealers may utilize our network to access customer credit reports and customer leads provided by or through this related party. We earn revenue from this related party for each credit report or customer lead that is accessed using our web-based service. The total amounts of net revenue from this related party for the year ended December 31, 2008, 2007 and 2006 were \$2.4 million, \$2.4 million, and \$2.7 million. The total amount of accounts receivable from this related party as of December 31, 2008 and 2007 was \$0.3 million and \$0.2 million, respectively.

### *Service Agreement with Related Parties Financing Sources*

We have entered into agreements with the automotive financing source affiliates of certain of our former stockholders. Each has agreed to subscribe to and use our network to receive credit application data and transmit credit decisions electronically and several have subscribed to our data services and other products. Under the agreements to receive credit application data and transmit credit decisions electronically, the automotive financing source affiliates of our stockholders have most favored nation status, granting each of them the right to no less favorable pricing terms for certain of our products and services than those granted by us to other financing sources, subject to limited exceptions. The agreements of the automotive financing source affiliates of these stockholders also restrict our ability to terminate such agreements.

The total amount of net revenue from these related parties for the year ended December 31, 2006 was \$30.7 million. As a result of our October 12, 2006 public offering, we no longer had a financing source as a related party.

## 6. Property and Equipment

Property and equipment are recorded at cost and consist of the following (dollars in thousands):

	Estimated Useful Life (Years)		December 31,	
			2008	2007
Computer equipment	3-5	\$	20,431	\$ 16,719
Office equipment	5		2,896	2,189
Furniture and fixtures	5		3,068	2,840
Leasehold improvements	5-11		1,233	992
Total property and equipment, gross			27,628	22,740
Less: Accumulated depreciation and amortization			(14,180)	(9,948)
Total property and equipment, net		\$	13,448	\$ 12,792

Depreciation and amortization expense related to property and equipment for the years ended December 31, 2008, 2007 and 2006, was \$5.9 million, \$4.1 million and \$2.8 million, respectively, and is calculated on a straight line basis

over the estimated useful life of the asset.

## 7. Intangible Assets

Intangible assets principally are comprised of customer contracts, database, trade names, patents, technology, non-competition agreements, and application processing contract with DHL. The amortization expense relating to intangible assets is recorded as a cost of revenue. The gross book value, accumulated amortization and amortization periods of the intangible assets were as follows (dollars in thousands):

	December 31, 2008		December 31, 2007		Amortization Period (Years)
	Gross Book Value	Accumulated Amortization	Gross Book Value	Accumulated Amortization	
Customer contracts	\$ 33,673	\$ (17,289)	\$ 41,569	\$ (14,789)	2-4
Database	13,333	(8,818)	16,433	(9,577)	3-6
Trade names	10,500	(5,469)	10,500	(4,460)	5-10
Technology	22,684	(7,209)	35,212	(16,618)	2-5
Non-compete agreement	10,697	(7,697)	14,062	(6,214)	2-5
Application processing contract			4,400	(1,029)	5
Other			900	(861)	5
Total	\$ 90,887	\$ (46,482)	\$ 123,076	\$ (53,548)	

The amortization expense charged to income for the years ended December 31, 2008, 2007, and 2006, was \$26.8 million, \$28.2 million, and \$17.3 million, respectively.

Amortization expense that will be charged to income for the subsequent five years and thereafter is estimated, based on the December 31, 2008 book value, to be \$17.8 million in 2009, \$14.6 million in 2010, \$6.9 million in 2011, \$2.6 million in 2012, \$1.3 million in 2013 and \$1.2 million thereafter.

On May 4, 2007, we completed an asset acquisition from Manheim Auction, Inc. of a non-compete agreement, customer list and a three-year data license for approximately \$5.1 million. Based upon a fair value assessment we allocated \$4.2 million to the non-compete agreement, \$0.4 million to the customer list and \$0.5 million to the data license. All three intangibles will be amortized to cost of revenue over three years.

On November 10, 2008, we entered into a perpetual license agreement for certain CRM technology components with AutoNation Holding Corp, Inc. for \$3.0 million. The entire \$3.0 million was allocated to the fair value of the technology acquired and will be amortized to cost of revenue over its useful life. As of December 31, 2008, \$2.5 million has been paid and the remaining amount of \$0.5 million is payable on the earlier of one hundred eighty days from the delivery date of the technology or completion of the first successful installation of the technology by DealerTrack.

During May 2006, as a part of our acquisition of Global Fax, LLC we recorded an intangible asset related to an application processing contract with DHL of \$4.4 million. During the fourth quarter of 2008, we were notified by DHL that they would be cancelling their contract and as such management concluded that this asset was impaired and accelerated the remaining amortization of approximately \$1.9 million to cost of revenue.

## 8. Goodwill

The changes in the carrying amount of goodwill for the year ended December 31, 2008 is as follows (in thousands):

Balance as of January 1, 2008	\$ 117,702
Purchase price adjustments - Curomax (see Note 4)	1,799
Impact of change in Canadian dollar exchange rate	(4,610)
Purchase price adjustments - ALG (Note 4)	1,139

Edgar Filing: DealerTrack Holdings, Inc. - Form 10-K/A

Purchase price adjustments	Arkona (Note 4)	(836)
Other		(308)

Balance as of December 31, 2008		\$ 114,886
---------------------------------	--	------------

The changes in the carrying amount of goodwill for the year ended December 31, 2007 is as follows (in thousands):

Balance as of January 1, 2007	\$ 52,499
Acquisition of Curomax (see Note 4)	20,130
Impact of change in Canadian dollar exchange rate	3,768
Acquisition of Arkona (see Note 4)	39,927
Acquisition of AutoStyleMart (see Note 4)	803
Purchase price adjustments ALG	547
Purchase price adjustments Go Big	74
Other adjustments	(46)
Balance as of December 31, 2007	\$ 117,702

### 9. Other Accrued Liabilities

Following is a summary of the components of other accrued liabilities (in thousands):

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Customer deposits	\$ 2,749	\$ 2,773
Revenue share	1,700	1,196
Taxes	1,511	3,379
Accrued Curomax contingent consideration (Note 4)	1,837	
Software licenses	1,341	1,212
Professional fees	1,158	1,462
Public company costs	240	174
Severance	34	271
Other	815	920
Total other accrued liabilities	\$ 11,385	\$ 11,387

### 10. Public Offerings

On October 24, 2007, we completed the public offering of 5,175,000 shares (including 675,000 shares sold upon the exercise of the underwriters' over-allotment option) of our common stock at a price of \$46.40 per share. In this offering, 2,300,000 shares were sold by us and 2,875,000 shares were sold by a stockholder. We did not receive any proceeds from the sale of our common stock by the selling stockholder. The net proceeds to us from the sale of our common stock in this offering were \$102.2 million after the exercise of the over-allotment, after deducting the underwriting discounts and commissions, financial advisory fees and expenses of the offering.

On October 12, 2006, we completed the public offering of 11,500,000 shares of our common stock at a price of \$23.76 per share. In this offering, we sold 2,750,000 shares of our common stock and certain of our stockholders sold 8,750,000 shares of our common stock, including 1,500,000 shares of our common stock sold by the selling stockholders in connection with the full exercise of the underwriters' over-allotment option. We did not receive any proceeds from the sale of shares of our common stock by the selling stockholders. We received net proceeds of \$61.6 million after the exercise of the over-allotment, after deducting the underwriting discounts and commissions, financial advisory fees and expenses of the offering.

### 11. 401(k) Plan

Our 401(k) plan covers substantially all employees meeting certain age requirements in accordance with section 401(k) of the Internal Revenue Code. Under the provisions of the 401(k) plan, we have the ability to make matching contributions equal to a percentage of the qualifying portion of the employee's voluntary contribution, as well as an additional matching contribution at year end and a nonelective contribution. Contributions under such plans for the years ended December 31, 2008, 2007 and 2006 were \$2.0 million, \$1.6 million and \$1.0 million, respectively.

**12. Income Taxes**

The components of our income before income taxes are as follows (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
United States	\$ (2,467)	\$ 29,433	\$ 23,554
Canada	8,164	3,353	2,579
Total income before taxes	\$ 5,697	\$ 32,786	\$ 26,133

The provision for income taxes consists of the following (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Current tax:			
Federal	\$ 2,440	\$ 14,123	\$ 15,558
State and local	290	2,373	2,839
Canada	3,283	1,169	
Total current tax	6,013	17,665	18,397
Deferred tax:			
Federal	(1,783)	(5,757)	(8,510)
State and local	(913)	179	(471)
Canada	644	947	(2,619)
Total deferred tax	(2,052)	(4,631)	(11,600)
Provision for income taxes, net	\$ 3,961	\$ 13,034	\$ 6,797

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes using enacted tax rates in effect in the year in which the differences are expected to reverse.

Deferred tax assets and liabilities as of December 31, 2008 and 2007 consisted of the amounts shown below:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Deferred tax assets:		
Net operating loss carryforwards	\$ 4,465	\$ 8,092
Depreciation and amortization		143
Deferred compensation	11,053	7,543
Acquired intangibles	5,650	1,230

Edgar Filing: DealerTrack Holdings, Inc. - Form 10-K/A

Tax credits		511
Impairment loss	2,171	
Other	2,021	2,940
	25,360	20,459
Deferred tax liabilities:		
Acquired Intangibles	(1,299)	(2,795)
Capitalized software and web site development	(2,076)	(2,264)
Depreciation and amortization	(864)	
Tax credits	(100)	
Other	(1,144)	(733)

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Deferred tax asset valuation allowance	19,877 (3,322)	14,667 (954)
Total Deferred tax assets, net	\$ 16,555	\$ 13,713

As of December 31, 2007, the deferred tax asset other included SRED Pool carryforwards in the amount of \$1.0 million. The SRED Pool deferred tax asset as of December 31, 2007 was fully utilized by December 31, 2008. As required by SFAS No. 109, the conclusion that it is more likely than not that the net deferred tax asset of approximately \$16.6 million and \$13.7 million at December 31, 2008 and 2007, respectively, would be realized was based on careful evaluation of the nature and weight of all of the available positive and negative evidence in accordance with SFAS No. 109. In reaching our conclusion, we balanced the weight of both the negative and positive evidence including cumulative losses; recent positive earnings; the expected level of future earnings; the length of the carry forward periods applicable to the deferred tax assets; and the change in business activity in recent years as compared to the initial years of operation.

We have state net operating losses which expire in various times and amounts through 2027. For the year ended December 31, 2008, approximately \$1.1 million of the \$3.3 million represents a valuation allowance against our state net operating losses which may not be utilized, and \$2.2 million of the \$3.3 million represents a valuation allowance against our impairment loss for auction rate securities which may not be utilized. Capital losses generally may only be used to offset income from capital gains. Since we do not anticipate any capital gains in the foreseeable future, no tax benefit is recorded with respect to the impairment losses as it is not likely that tax benefits would ultimately be realized from such losses. For the year ended December 31, 2007, the deferred tax asset valuation allowance of approximately \$1.0 million represents a valuation allowance against our state net operating losses which may not be utilized.

As of December 31, 2008 and 2007, we had U.S. federal net operating loss carryforwards of \$9.2 million and \$20.0 million, respectively. As of December 31, 2008 and 2007, the utilization of \$9.2 million and \$20.0 million, respectively, of these loss carryforwards may be subject to limitation under Section 382 of the Internal Revenue Code. These losses are available to reduce future taxable income and expire in varying amounts beginning in 2022.

As of December 31, 2008, all Canadian net operating loss carryforwards from prior periods were fully utilized. The difference in income tax expense between the amount computed using the statutory federal income tax rate and our effective tax rate is primarily due to state taxes and tax exempt income from investments. The effect of change in tax rate for 2008 and 2007 is primarily due to state taxes, differences in foreign tax rates and the benefits derived from tax exempt income. The effect of change in tax rate for 2006 represents the tax impact of a change in the estimated effective tax rate applicable to our deductible and taxable temporary differences for purpose of determining our deferred tax assets and liabilities. The change in the estimated effective tax rate was made in order to reflect the tax rate at which our temporary differences are expected to reverse in future years.

The analysis of the effective tax rate for 2008, 2007 and 2006 is as follows:

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Pre-tax book income	35.0%	35.0%	35.0%
State taxes	(2.7)	3.5	6.0
Foreign rate differential	18.8	2.8	0.2
Deferred tax rate adjustment	(7.9)	1.5	2.3

Edgar Filing: DealerTrack Holdings, Inc. - Form 10-K/A

Valuation allowance and other	26.3	(3.1)	(17.5)
Total	69.5%	39.7%	26.0%

We do not provide for deferred taxes on the temporary differences related to investments in foreign subsidiaries since such profits are considered to be permanently invested.

We do not expect any significant increase or decrease in our unrecognized tax benefits within the next 12 months. We adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109 of FIN 48, on January 1, 2007. FIN 48 specifies the way public companies are to account for uncertainty in income tax reporting, and prescribes the methodology for recognizing, reversing, and measuring the tax benefits of a tax position taken, or expected to be taken, in a tax return. Our adoption of FIN 48 did not result in any change to the level of our liability for uncertain tax positions, and there was no adjustment to our retained earnings for the cumulative effect of an accounting change.

We file a consolidated US income tax return and tax returns in various state and local jurisdictions. Certain of our subsidiaries also file income tax returns in Canada. The Internal Revenue Service (IRS) has initiated a review of our consolidated federal income tax return for the period ended December 31, 2006. The IRS has also initiated an examination of Arkona, Inc. for the period ended March 31, 2006 (pre-acquisition period). At this time no issues have been identified in any audits which would lead us to believe any changes in reserves are necessary. All of our other significant taxing jurisdictions are closed for years prior to 2005.

Interest and penalties, if any, related to tax positions taken in our tax returns recorded in interest expense and general and administrative expenses, respectively, in our consolidated statement of operations. At December 31, 2007, no amounts were accrued for interest and penalties related to tax positions taken on our tax returns. At December 31, 2008, we accrued interest and penalties related to tax positions taken on our tax returns of approximately \$28,000. A year-over-year reconciliation of our liability for uncertain tax positions is as follows (dollars in millions):

Balance January 1, 2008	\$	0.1
Additions		0.4
Payments		
Balance December 31, 2008	\$	0.5
Balance January 1, 2007	\$	0.4
Additions		
Payments		(0.3)
Balance December 31, 2007	\$	0.1

Approximately \$0.3 million of the liability for uncertain tax positions recorded in our balance sheet would affect our effective rate upon resolution of the uncertain tax positions.

### **13. Stock Option and Deferred Compensation Plans**

#### ***2001 Stock Option Plan***

Options granted under the 2001 Stock Option Plan were all non-qualified stock options. Effective May 26, 2005, no options are available for future grant under the 2001 Stock Option Plan.

#### ***Second Amended and Restated 2005 Incentive Award Plan***

On June 3, 2008, our stockholders approved a proposal to amend and restate our Amended and Restated DealerTrack Holdings, Inc. 2005 Incentive Award (2005 Incentive Award Plan) to, among other things, increase the aggregate number of shares authorized for issuance under the 2005 Plan by 1,550,000 shares. After giving effect to these additional shares there is an aggregate of 9,250,000 shares of common stock that have been reserved for issuance pursuant to the 2005 Incentive Award Plan. As of December 31, 2008, 1,559,996 shares were available for future issuance. The significant features of the Second Amended and Restated 2005 Incentive Award Plan are:

- any shares underlying grants that are forfeited, cancelled or are terminated are added back for issuance;
- shares tendered or held for taxes will not be added to the reserved pool;

upon the exercise of a stock appreciation rights, or SAR, the gross number of shares will be reduced from the pool;

we may grant non-qualified stock options, restricted common stock, SAR s, performance shares, performance stock units, dividend equivalent units, stock payment awards, deferred stock awards, restricted stock units performance-based awards payable in either cash or in shares to our employees, directors or consultants, and additionally, we may grant incentive stock options to our employees;

the option term for new stock options is now limited to seven years;

the maximum number of shares of common stock that may be awarded to any one person during any one year is 750,000 shares and the maximum amount payable with respect to cash performance bonus awards during any fiscal year is limited to \$3,000,000;

to ensure that certain awards granted as performance-based compensation under section 162(m) of the Internal Revenue Code of 1986, the compensation committee may require that the vesting of such awards be conditioned on the satisfaction of performance criteria; and

the term of the Restated 2005 Plan is now extended to April 29, 2018.

Options granted under both the 2001 Stock Option Plan and the 2005 Incentive Award Plan generally vest over a period of four years from the vesting commencement date (three years for directors), and expire seven years from the date of grant (as defined by the plan document), except for stock options granted prior to July 11, 2007, which expire ten years from the date of grant (as defined by the plan document) and terminate, to the extent unvested, on the date of termination of employment, and to the extent vested, generally at the end of the three-month period following termination of employment, except in the case of executive officers, who under certain conditions have a twelve-month period following termination of employment to exercise.

The following table summarizes the activity under our stock option plans as of December 31, 2008:

	<b>Number of Shares</b>	<b>Weighted-Average Exercise Price</b>
Balance as of January 1, 2008	3,918,595	\$ 14.2141
Options Granted	1,041,900	\$ 23.6416
Options Exercised	(102,182)	\$ 9.3085
Options Cancelled	(124,964)	\$ 27.3064
Balance as of December 31, 2008	4,733,349	\$ 16.0616
Vested and unvested expected to vest as of December 31, 2008	4,610,656	\$ 15.8334

The intrinsic value of the stock options exercised during the years ended December 31, 2008, 2007 and 2006 was approximately \$1.1 million, \$18.9 million, and \$6.7 million, respectively. The intrinsic value of the stock options vested and unvested expected to vest at December 31, 2008 was approximately \$14.6 million. The weighted average remaining contractual term for options vested and unvested expected to vest at December 31, 2008 was 5.5758 years. The following table summarizes information concerning currently outstanding and exercisable options as of December 31, 2008:

<b>Exercise Price Range</b>	<b>Options Outstanding</b>				<b>Number Exercisable</b>	<b>Options Exercisable</b>		
	<b>Number of Shares Outstanding</b>	<b>Weighted- Average Contractual Life in Years</b>	<b>Weighted- Average Exercise Price</b>	<b>Aggregate Intrinsic Value ( 000)</b>		<b>Weighted- Average Contractual Life in Years</b>	<b>Weighted- Average Exercise Price</b>	<b>Aggregate Intrinsic Value ( 000)</b>

Edgar Filing: DealerTrack Holdings, Inc. - Form 10-K/A

\$2.80-\$47.98	4,733,349	5.5863	\$ 16.0616	\$ 14,617	3,024,306	5.3634	\$ 10.7873	\$ 14,555
----------------	-----------	--------	------------	-----------	-----------	--------	------------	-----------

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value, based on our closing stock price of \$11.89 for the year ended December 31, 2008.

We have granted restricted common stock to certain employees and directors under the 2005 Incentive Award Plan. The awards are generally subject to an annual cliff vest of four years from the date of grant (one year for directors). A summary of the status of the non-vested shares as of December 31, 2008 and changes during the year ended December 31, 2008, is presented below:

	<b>Restricted Common Stock</b>	
	<b>Number of</b>	<b>Weighted</b>
	<b>Shares</b>	<b>Average Grant</b>
		<b>Date Fair Value</b>
Non-vested as of January 1, 2008	983,129	\$ 16.0433
Awards granted	49,357	\$ 19.9127
Awards vested	(141,510)	\$ 27.1847
Awards canceled/expired/forfeited	(7,801)	\$ 28.8505
Non-vested as of December 31, 2008	883,175	\$ 14.3609

As of December 31, 2008, there was \$15.5 million and \$10.4 million of unamortized APB 25 and FAS 123(R) stock-based compensation expense related to stock option and restricted common stock awards, respectively. The unamortized stock-based compensation expense related to stock options is expected to be recognized on a straight line basis over a weighted average remaining period of 2.2196 years. Of the \$10.4 million of deferred stock-based compensation expense related to restricted common stock awards, \$5.2 million is expected to be recognized on a straight-line basis over a weighted average remaining period of 1.3356 years. The remaining \$5.2 million of restricted common stock-based compensation relates to the long-term incentive equity awards, of which \$0.8 million relates to the Market Value Awards and \$4.4 million relates to the EBITDA Performance Awards. Refer to the section

Long-Term Incentive Equity Awards , in this footnote, for expense recognition information.

#### ***Employee Stock Purchase Plan***

The total number of shares of common stock reserved under the ESPP is 1,500,000 and the total number of shares available for future issuance as of December 31, 2008 under the ESPP is 1,275,074. For employees eligible to participate on the first date of an offering period, the purchase price of shares of common stock under the ESPP will be 85% of the fair market value of the shares on the last day of the offering period, which is the date of purchase. As of December 31, 2008, 224,926 shares of common stock were issued under the ESPP. The compensation expense that we recorded for the years ended December 31, 2008, 2007 and 2006, related to the ESPP was \$0.3 million, \$0.3 million and \$0.2 million, respectively.

#### ***Employees' Deferred Compensation Plan***

The Employees' Deferred Compensation Plan is a non-qualified retirement plan. The Employees' Deferred Compensation Plan allows a select group of our management to elect to defer certain bonuses that would otherwise be payable to the employee. Amounts deferred under the Employees' Deferred Compensation Plan are general liabilities of ours and are represented by bookkeeping accounts maintained on behalf of the participants. Such accounts are deemed to be invested in share units that track the value of our common stock. Distributions will generally be made to a participant following the participant's termination of employment or other separation from service, following a change of control if so elected, or over a fixed period of time elected by the participant prior to the deferral.

Distributions will generally be made in the form of shares of our common stock. As of December 31, 2008, 2,177 deferred stock units were recorded under a memo account and 147,823 shares of common stock are reserved and available for distribution under the Employees' Deferred Compensation Plan.

#### ***Directors' Deferred Compensation Plan***

The Directors' Deferred Compensation Plan is a non-qualified retirement plan that allows each board member to elect to defer certain fees that would otherwise be payable to the director. Amounts deferred under the Directors' Deferred

Compensation Plan are general liabilities of ours and are represented by bookkeeping accounts maintained on behalf of the participants. Such accounts are deemed to be invested in share units that track the value of our common stock. Distributions will generally be made to a participant following the participant's termination of service following a change of control if so elected, or over a fixed period of time elected by the participant prior to the deferral. Distributions will generally be made in

the form of shares of our common stock. As of December 31, 2008, 32,703 deferred stock units were recorded under a memo account and 34,312 shares of common stock are reserved and available for distribution under the Directors Deferred Compensation Plan.

***Long Term Incentive Equity Awards***

On August 2, 2006, November 2, 2006, and July 21, 2007, the compensation committee of the board of directors granted long-term performance equity awards (under the 2005 Incentive Award Plan) consisting of 565,000, 35,000 and 10,000 shares of restricted common stock, respectively, to certain executive officers and other employees. Each individual's award is allocated 50% to achieving earnings before interest, taxes, depreciation and amortization, as adjusted to reflect any future acquisitions (EBITDA Performance Award) and 50% to the market value of our common stock (Market Value Award). The awards are earned upon our achievement of EBITDA and market-based targets for the fiscal years 2007, 2008 and 2009, but will not vest unless the grantee remains continuously employed in active service until January 31, 2010. If an EBITDA Performance Award or Market Value Award is not earned in an earlier year, it can be earned upon achievement of that target in a subsequent year. The awards will accelerate in full upon a change in control, if any.

In accordance with FAS 123(R), we valued the EBITDA Performance Award and the Market Value Award using the Black-Scholes and binomial lattice-based valuation pricing models, respectively. The total fair value of the entire EBITDA Performance Award is \$6.0 million (prior to estimated forfeitures), of which, in January 2007, we began expensing on a straight-line basis the amount associated with the 2007 award as it was deemed probable that the threshold for the year ending December 31, 2007 would be met. We have met the EBITDA target for 2007 and have recorded expense related to the 2007 target for the years ended December 31, 2008 and 2007, of \$0.7 million and \$0.6 million, respectively. As of December 31, 2008, we have not begun to expense the EBITDA Performance Awards for 2008 and 2009 as it has not been deemed probable that the targets will be achieved. We will continue to evaluate the probability of achieving the targets on a quarterly basis. The total value of the entire Market Value Award is \$2.5 million (including estimated forfeitures), which is expensed on a straight-line basis from the date of grant over the applicable service period. As long as the service condition is satisfied, the expense is not reversed, even if the market conditions are not satisfied. The expense recorded related to the market value award for the years ended December 31, 2008, 2007 and 2006, was \$0.7 million, \$0.7 million and \$0.3 million, respectively.

The fair value of the EBITDA Performance Award for the years ended December 31, 2007 and 2006 has been estimated on the date of grant using a Black-Scholes valuation pricing model with the following weighted-average assumptions

	<b>July 21, 2007</b>	<b>November 2, 2006</b>	<b>August 2, 2006</b>
Expected volatility	47.00%	40.00%	40.00%
Expected dividend yield	0.00%	0.00%	0.00%
Expected life (in years)	2.37	3.16	3.42
Risk-free interest rate	4.43%	4.91%	4.99%
Weighted-average fair value of EBITDA Performance Award	\$ 38.01	\$ 25.39	\$ 18.95

The number of shares of restricted common stock that management expects to be earned for the Market Value Award for the years ended December 31, 2007 and 2006 has been estimated on the date of grant using a binomial lattice-based valuation pricing model with the following weighted-average assumptions:

	<b>July 21, 2007</b>	<b>November 2, 2006</b>	<b>August 2, 2006</b>
Expected volatility	47.00%	40.00%	40.00%
Expected dividend yield	0.00%	0.00%	0.00%

Edgar Filing: DealerTrack Holdings, Inc. - Form 10-K/A

Expected life (in years)	2.37	1.16-3.16	1.41-3.42
Risk-free interest rate	4.43%	4.55-4.91%	4.83-4.99%
Weighted-average fair value of Market Value Award	\$ 29.77	\$ 15.86	\$ 7.49

**14. Stock Repurchase Program**

On March 18, 2008, the board of directors authorized a stock repurchase program under which we may spend up to \$75.0 million to repurchase shares of our common stock. Stock repurchases under this program may be made on the open market, through 10b5-1 programs, or in privately negotiated transactions in accordance with all applicable laws, rules and regulations. The transactions may be made from time to time without prior notice and in such amounts as our management deems appropriate and will be funded from cash on hand. The number of shares to be repurchased and the timing of repurchases will be based on several factors, including the price of our common stock, legal or regulatory requirements, general business and market conditions, and other investment opportunities. The stock repurchase program will expire on March 31, 2009, but may be limited or terminated at any time by our board of directors without prior notice. From inception of the program through December 31, 2008, we repurchased 3.0 million shares of common stock for an aggregate price of approximately \$49.8 million. As of December 31, 2008, there was \$25.2 million remaining in our stock repurchase program.

**15. Commitments and Contingencies*****Operating Leases***

We lease our office space and various office equipment under cancelable and noncancelable operating leases which expire on various dates through October 15, 2018. For the years ended December 31, 2008, 2007 and 2006 the total operating lease expense was \$5.0 million, \$4.6 million and \$2.9 million, respectively.

Future minimum rental payments under the noncancelable operating leases are as follows (in thousands):

**Years Ending December 31,**

2009	\$	4,720
2010		3,756
2011		3,186
2012		3,062
2013		2,861
Thereafter		11,883
	\$	29,468

***Capital Leases***

The following is an analysis of the leased property under capital leases by major property class (in thousands):

	<b>As of December 31,</b>	
	<b>2008</b>	<b>2007</b>
Computer equipment	\$ 1,486	\$ 1,486
Furniture and fixtures	203	203
	1,689	1,689
Less: Accumulated depreciation	(870)	(274)
	\$ 819	\$ 1,415



Future minimum rental payments under the capital leases are as follows (in thousands):

**Years Ending December 31,**

2009	\$	417
2010		349
2011		115
Total minimum lease payments		881
Less: Amount representing taxes, included in total minimum lease payments		(50)
Net minimum lease payments		831
Less: Amount representing interest		(67)
Present value of net minimum lease payments		\$ 764

***Retail Sales Tax***

The Ontario Ministry of Revenue (the Ministry) has conducted a retail sales tax field audit on the financial records of our Canadian subsidiary, DealerTrack Canada, Inc. (formerly known as DealerAccess Canada, Inc.), for the period from March 1, 2001 through May 31, 2003. We received a formal assessment from the Ministry indicating unpaid Ontario retail sales tax totaling approximately \$0.2 million, plus interest. Although we are disputing the Ministry's findings, the assessment, including interest, has been paid in order to avoid potential future interest and penalties. As part of the purchase agreement dated, December 31, 2003 between us and Bank of Montreal for the purchase of 100% of the issued and outstanding capital stock of DealerAccess, Inc., Bank of Montreal agreed to indemnify us specifically for this potential liability for all sales tax periods prior to January 1, 2004. The potential sales tax liability for the period covered by this indemnification is now closed due to the statutory expiration of the periods open for audit by the Ministry. To date, all amounts paid to the Ministry by us for this assessment have been reimbursed by the Bank of Montreal under this indemnity.

We undertook a comprehensive review of the audit findings of the Ministry using external tax experts. Our position has been that our financing source revenue transactions are not subject to Ontario retail sales tax. We filed a formal Notice of Objection with the Ministry on December 12, 2005. We received a letter dated November 2, 2007 from an appeals officer of the Ministry stating that the assessment was, in his opinion, properly raised and his intention was to recommend his confirmation to senior management of the Ministry. The officer agreed, however, to defer his recommendation for a period of thirty business days to enable us to submit any additional information not yet provided. We submitted additional information to the Ministry to support our position that the services are not subject to sales tax.

We received a letter dated December 21, 2007 from the Ministry stating that no change should be made to the appeals officer's opinion. The letter further stated that we had ninety days from the date of the letter to file a Notice of Appeal with the Superior Court of Justice. A Notice of Appeal was filed on our behalf on March 18, 2008 to challenge the assessment because we did not believe these services are subject to sales tax. On December 15, 2008, the Ministry filed its response to our Notice of Appeal. The response reiterates the Ministry's position that the transactions are subject to Ontario retail sales tax. The parties are now engaged in the discovery process and we expect this matter will be heard by the Superior Court in late 2009. We have not accrued any related sales tax liability for the period subsequent to May 31, 2003, for these financing source revenue transactions. This appeal is supported by the financial institutions whose source revenue transactions were subject to the assessment. These financial institutions have agreed to participate in the cost of the litigation.

In the event we are obligated to charge sales tax for this type of transaction, we believe this Canadian subsidiary's contractual arrangements with its financing source customers obligate these customers to pay all sales taxes that are levied or imposed by any taxing authority by reason of the transactions contemplated under the particular contractual arrangement. In the event of any failure to pay such amounts, we would be required to pay the obligation, which could range from \$4.4 million (CAD) to \$4.9 million (CAD), including penalties and interest.

### ***Commitments***

Pursuant to employment or severance agreements with certain employees, we have a commitment to pay severance of approximately \$5.4 million as of December 31, 2008 and \$5.1 million as of December 31, 2007, in the event of termination without cause, as defined in the agreements, as well as certain potential gross-up payments to the extent any such severance payment would constitute an excess parachute payment under the Internal Revenue Code. We also have a commitment to pay additional severance of \$2.9 million as of December 31, 2008 and \$2.4 million as of December 31, 2007, if there is a change in control. Due to the realignment of our workforce and business on January 5, 2009, the severance commitment was reduced by approximately \$1.9 million. Refer to Note 18 for further information.

We are a party to a variety of agreements pursuant to which we may be obligated to indemnify the other party with respect to breach of contract, infringement and other matters. Typically, these obligations arise in the context of agreements entered into by us, under which we customarily agree to hold the other party harmless against losses arising from breaches of representations, warranties and/or covenants. In these circumstances, payment by us is generally conditioned on the other party making a claim pursuant to the procedures specified in the particular agreement, which procedures typically allow us to challenge the other party's claims. Further, our obligations under these agreements may be limited to indemnification of third-party claims only and limited in terms of time and/or amount. In some instances, we may have recourse against third parties for certain payments made by us.

It is not possible to predict the maximum potential amount of future payments under these or similar agreements due to the conditional nature of our obligations and the unique facts and circumstances involved in each particular agreement. To date, we have not been required to make any such payment. We believe that if we were to incur a loss in any of these matters, it is not probable that such loss would have a material effect on our business or financial condition.

### ***Legal Proceedings***

From time to time, we are a party to litigation matters arising in connection with the normal course of our business, none of which is expected to have a material adverse effect on us. In addition to the litigation matters arising in connection with the normal course of our business, we are party to the litigation described below.

#### ***DealerTrack Inc. v. RouteOne LLC***

On January 28, 2004, we filed a Complaint and Demand for Jury Trial against RouteOne LLC ( RouteOne ) in the United States District Court for the Eastern District of New York, Civil Action No. CV 04-322 (SJF). The complaint sought injunctive relief as well as damages against RouteOne for infringement of two patents owned by us: U.S. Patent No. 6,587,841 (the 841 Patent ) and U.S. Patent No. 5,878,403 (the 403 Patent ). These patents relate to computer implemented automated credit application analysis and decision routing inventions. The complaint also sought relief for RouteOne's acts of copyright infringement, circumvention of technological measures and common law fraud and unfair competition.

The court approved a joint stipulation of dismissal with respect to this action. Pursuant to the joint stipulation, the patent count was dismissed without prejudice to be pursued as part of the below consolidated actions and all other counts were dismissed with prejudice.

#### ***DealerTrack, Inc. v. Finance Express et al., CV-06-2335;***

#### ***DealerTrack Inc. v. RouteOne and Finance Express et al., CV-06-6864; and***

#### ***DealerTrack Inc. v. RouteOne and Finance Express et al., CV-07-215***

On April 18, 2006, we filed a Complaint and Demand for Jury Trial against David Huber, Finance Express LLC ( Finance Express ), and three of their unnamed dealer customers in the United States District Court for the Central District of California, Civil Action No. CV-06-2335 AG (FMOx). The complaint sought declaratory and injunctive relief, as well as damages, against the defendants for infringement of the 403 Patent and the 841 Patent. Finance Express denied infringement and challenged the validity and enforceability of the patents-in-suit.

On October 27, 2006, we filed a Complaint and Demand for Jury Trial against RouteOne, David Huber and Finance Express in the United States District Court for the Central District of California, Civil Action No. CV-06-6864 (SJF). The complaint sought declaratory and injunctive relief as well as damages against the defendants for infringement of the 403 Patent and 841 Patent. On November 28, 2006 and December 4, 2006, respectively, defendants RouteOne, David Huber and Finance Express filed their answers. The defendants denied infringement and challenged the validity and enforceability of the patents-in-suit.

On February 20, 2007, we filed a Complaint and Demand for Jury Trial against RouteOne, David Huber and Finance Express in the United States District Court for the Central District of California, Civil Action No. CV-07-215 (CWx). The complaint sought declaratory and injunctive relief as well as damages against the defendants for infringement of U.S. Patent No. 7,181,427 (the 427 Patent ). On April 13, 2007 and April 17, 2007, respectively, defendants RouteOne, David Huber and Finance Express filed their answers. The defendants denied infringement and challenged the validity and enforceability of the 427 Patent.

The DealerTrack, Inc. v. Finance Express et al., CV-06-2335 action, the DealerTrack Inc. v. RouteOne and Finance Express et al., CV-06-6864 action and the DealerTrack v. RouteOne and Finance Express et al., CV-07-215 action, described above, were consolidated by the court. A hearing on claims construction, referred to as a *Markman* hearing, was held on September 25, 2007. Fact and expert discovery and motions for summary judgment have been completed.

On July 21, 2008 and September 30, 2008, the court issued summary judgment orders disposing of certain issues and preserving other issues for trial.

On January 29, 2009, the parties filed a proposed pretrial order that the court has not yet entered. Under the proposed pretrial order, we expect the following claims to be tried:

1. RouteOne infringes claims 1, 3 and 4 of the 427 Patent pursuant to 35 U.S.C. Section 271(a).
  2. Finance Express infringes claims 7-9, 12, 14, 16 and 17 of the 841 Patent pursuant to 35 U.S.C. Sections 271(a) and (b).
  3. Finance Express infringes claims 1, 3 and 4 of the 427 Patent pursuant to 35 U.S.C. Section 271(a).
- RouteOne and Finance Express continue to assert that the patents are invalid and unenforceable, and continue to deny infringement.

Trial is currently scheduled to begin April 21, 2009.

We intend to pursue our claims vigorously.

We believe that the potential liability from all current litigations will not have a material effect on our financial position or results of operations when resolved in a future period.

#### **16. Segment Information**

In accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS No. 131) segment information is being reported consistent with our method of internal reporting. In accordance with SFAS No. 131, operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The chief operating decision maker reviews information at a consolidated level, as such we have one reportable segment under SFAS No. 131. For enterprise-wide disclosure, we are organized primarily on the basis of service lines. Revenue earned outside of the United States for the years ended December 31, 2008 and 2007 is approximately 11% and 10% of our revenue, respectively, and is less than 10% of our revenue for 2006.

Supplemental disclosure of revenue by service type is as follows (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Transaction services revenue	\$ 132,419	\$ 147,312	\$ 112,752
Subscription services revenue	94,690	75,061	53,352
Other	15,597	11,472	7,168
Total net revenue	\$ 242,706	\$ 233,845	\$ 173,272

### **17. Credit Facility**

Our \$25.0 million revolving credit facility expired on April 15, 2008, pursuant to its terms.

### **18. Subsequent Events**

#### ***Realignment of Workforce and Business***

On January 5, 2009, we announced a realignment of our workforce and business aimed at sharpening our focus on high growth opportunities and to reflect current market conditions. To do this we reduced our workforce by approximately 90 people, or 8% of our total employees, including several executive and senior-level positions. As a result of the realignment, we anticipate a restructuring charge in the first quarter of 2009 of \$7.1 million on a pre-tax basis, including approximately \$4.0 million of net non-cash compensation expense.

#### ***AAX Asset Acquisition***

On January 23, 2009, we acquired the AAX<sup>®</sup> suite of inventory management solutions and other assets from JM Dealer Services, Inc., a subsidiary of JM Family Enterprises, Inc., for a purchase price of \$32.6 million in cash. The AAX inventory management suite will be marketed in conjunction with our current inventory management solution. In accordance with SFAS 141R *Business Combinations* we expensed approximately \$0.4 million of professional fees associated with the acquisition during the first quarter of 2009. We are in the process of finalizing the fair value assessment for the acquired assets, which is expected to be completed by December 31, 2009, and accordingly the related purchase accounting is not final.

#### ***Exit from SCS Business***

On February 14, 2009, DealerTrack exited its non core SCS business in a transaction with a former senior executive of the company who left the organization in January 2009 as part of the realignment of our workforce. The SCS business, which accounted for approximately \$1.9 million of revenue in 2008, is an administration system used by aftermarket providers as their back-end origination solution. DealerTrack can earn up to \$2.0 million in contingent purchase price.

**DEALERTRACK HOLDINGS, INC.**  
**SCHEDULE II**  
**VALUATION AND QUALIFYING ACCOUNTS**

Description	Balance at Beginning of Period	Additions Charged to Expenses	Deductions  (In thousands)	Other Adjustments	Balance at End of Period
As of December 31, 2008:					
Allowance for doubtful accounts	\$ 1,730	\$ 4,225	\$ (5,007)	\$	\$ 948
Allowance for sales credits	885	5,414	(5,399)		900
Deferred tax valuation allowance	954	141		2,227(1)	3,322
As of December 31, 2007:					
Allowance for doubtful accounts	\$ 1,884	\$ 3,620	\$ (3,883)	\$ 109	\$ 1,730
Allowance for sales credits	2,523	3,147	(4,785)		885
Deferred tax valuation allowance	214	109		631(2)	954
As of December 31, 2006:					
Allowance for doubtful accounts	\$ 1,531	\$ 1,527	\$ (1,174)	\$	\$ 1,884
Allowance for sales credits	1,133	3,311	(1,921)		2,523
Deferred tax valuation allowance	4,245	214	(4,245)(3)		214

(1) For the year ended December 31, 2008, the deferred tax valuation allowance was increased by \$2.2 million primarily due to an impairment loss on auction rate securities and was further increased by expenses in various states.

(2) For the year ended December 31,

2007, the deferred tax valuation allowance was increased by \$0.6 million primarily due to acquisitions during 2007 and was further increased by expenses in various states.

- (3) For the year ended December 31, 2006, the deferred tax asset valuation was reversed by \$4.2 million. Included in this reversal is a \$0.7 million adjustment to goodwill relating to the net operating loss acquired but not recognized at the date of acquisition of DealerAccess in January 2004.

**PART IV**

**Item 15. Exhibits**

*15(a)(3) Exhibits*

Exhibits are as set forth in the List of Exhibits.

**SIGNATURE**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: September 24, 2009

DealerTrack Holdings, Inc.  
(Registrant)

By: /s/ Eric D. Jacobs  
Eric D. Jacobs  
Senior Vice President, Chief Administrative  
Officer,  
Chief Financial Officer and Treasurer  
(Duly Authorized Officer and  
Principal Financial Officer)

**EXHIBIT INDEX**

<b>Number</b>	<b>Description</b>
3.1 <sup>(4)</sup>	Form of Fifth Amended and Restated Certificate of Incorporation of DealerTrack Holdings, Inc.
3.2 <sup>(4)</sup>	Form of Amended and Restated By-laws of DealerTrack Holdings, Inc.
4.1 <sup>(1)</sup>	Fourth Amended and Restated Registration Rights Agreement, dated as of March 19, 2003, among DealerTrack Holdings, Inc. and the stockholders of DealerTrack Holdings, Inc. party thereto.
4.2 <sup>(3)</sup>	Form of Certificate of Common Stock.
10.1 <sup>(2)</sup>	Transition Services Agreement, dated as of March 19, 2003, by and among DealerTrack Holdings, Inc., Credit Online, Inc., DealerTrack, Inc., First American Credit Management Solutions, Inc. and First American Real Estate Solutions, LLC.
10.2 <sup>(2)</sup>	Joint Marketing Agreement, dated as of March 19, 2003, by and among DealerTrack Holdings, Inc., DealerTrack, Inc., Credit Online, Inc. and First American CREDCO, a division of First American Real Estate Solutions, LLC.
10.3 <sup>(2)</sup>	First Amendment to the Joint Marketing Agreement by and among DealerTrack Holdings, Inc., DealerTrack, Inc., Credit Online, Inc. and First American CREDCO, a division of First American Real Estate Solutions, LLC, dated as of December 1, 2004.
10.4 <sup>(2)</sup>	Agreement between DealerTrack, Inc. and CreditReportPlus, LLC, dated as of December 1, 2004.
10.5 <sup>(2)</sup>	Application Service Provider Contract, dated as of April 15, 2005, between First American Credit Management Solutions, Inc. and DealerTrack, Inc.
10.6 <sup>(2)</sup>	Non-Competition Agreement, dated as of March 19, 2003, by and among DealerTrack Holdings, Inc., Credit Online, Inc., First American Credit Management Solutions, Inc. and The First American Corporation.
10.7 <sup>(2)</sup>	License Agreement, made and entered into as of February 1, 2001, by and between The Chase Manhattan Bank and J.P. Morgan Partners (23A SBIC Manager), Inc.
10.8 <sup>(2)</sup>	Asset Purchase Agreement, dated as of May 25, 2005, by and among Santa Acquisition Corporation, Automotive Lease Guide (alg), LLC, Automotive Lease Guide (alg) Canada, Inc., Douglas W. Aiken, John A. Blair and Raj Sundaram.
10.9 <sup>(11)</sup>	Amended and Restated Senior Executive Employment Agreement, dated as of August 8, 2007, by and between Mark F. O Neil and DealerTrack Holdings, Inc.
10.10+	Amendment No. 1 To Amended and Restated Senior Executive Employment Agreement, dated December 31, 2008, by and between Mark F. O Neil and DealerTrack Holdings, Inc.
10.11+	Amended and Restated Senior Executive Employment Agreement, dated as of August 8, 2007, by and between David Trinder and DealerTrack Holdings, Inc.
10.12+	Amendment No. 1 To Amended and Restated Senior Executive Employment Agreement, dated December 31, 2008, by and between David Trinder and DealerTrack Holdings, Inc.
10.13 <sup>(11)</sup>	Amended and Restated Senior Executive Employment Agreement, dated as of August 8, 2007, by and between Eric D. Jacobs and DealerTrack Holdings, Inc.
10.14+	Amendment No. 1 To Amended and Restated Senior Executive Employment Agreement, dated December 31, 2008, by and between Eric D. Jacobs and DealerTrack Holdings, Inc.
10.15 <sup>(11)</sup>	Amended and Restated Senior Executive Employment Agreement, dated as of August 8, 2007, by and between Raj Sundaram and DealerTrack Holdings, Inc.
10.16+	Amendment No. 1 To Amended and Restated Senior Executive Employment Agreement, dated December 31, 2008, by and between Raj Sundaram and DealerTrack Holdings, Inc.
10.17 <sup>(9)</sup>	Letter Agreement, dated October 23, 2006, from DealerTrack, Inc. to Raj Sundaram regarding relocation.
10.18 <sup>(9)</sup>	Unfair Competition and Nonsolicitation Agreement, dated as of May 25, 2005, by and between Raj Sundaram and Automotive Lease Guide (alg), Inc.

10.19<sup>(9)</sup> Amendment No. 1 to Unfair Competition and Nonsolicitation Agreement, made as of August 21, 2006, by and between Automotive Lease Guide (alg), Inc. and Raj Sundaram.

Number	Description
10.20 <sup>(11)</sup>	Amended and Restated Senior Executive Employment Agreement, dated as of August 8, 2007, by and between Robert Cox and DealerTrack Holdings, Inc.
10.21+	Amendment No. 1 To Amended and Restated Senior Executive Employment Agreement, dated December 31, 2008, by and between Robert Cox and DealerTrack Holdings, Inc.
10.22 <sup>(1)</sup>	2001 Stock Option Plan of DealerTrack Holdings, Inc., effective as of August 10, 2001.
10.23 <sup>(1)</sup>	First Amendment to 2001 Stock Option Plan of DealerTrack Holdings, Inc., effective as of December 28, 2001.
10.24 <sup>(1)</sup>	Second Amendment to 2001 Stock Option Plan of DealerTrack Holdings, Inc., effective as of March 19, 2003.
10.25 <sup>(1)</sup>	Third Amendment to 2001 Stock Option Plan of DealerTrack Holdings, Inc., effective as of January 30, 2004.
10.26 <sup>(6)</sup>	Fourth Amendment to 2001 Stock Option Plan of DealerTrack Holdings, Inc. effective as of February 10, 2006.
10.27 <sup>(10)</sup>	Second Amended and Restated 2005 Incentive Award Plan, effective as of June 3, 2008.
10.28 <sup>(8)</sup>	Amendment to Asset Purchase Agreement, dated October 18, 2006, by and among Santa Acquisition Corporation, Automotive Lease Guide (alg), LLC, Automotive Lease Guide (alg) Canada, Inc., Douglas W. Aiken, John A. Blair and Raj Sundaram.
10.29 <sup>(5)</sup>	Form of Stock Option Agreement.
10.30 <sup>(5)</sup>	Form of Restricted Stock Agreement.
10.31+	Form of Restricted Stock Unit Agreement.
10.32 <sup>(1)</sup>	Senior Executive Incentive Bonus Plan, effective as of May 26, 2005.
10.33 <sup>(9)</sup>	Stock Ownership and Retention Program, adopted May 26, 2005.
10.34 <sup>(1)</sup>	Employee Stock Purchase Plan, adopted May 26, 2005.
10.35 <sup>(1)</sup>	Directors' Deferred Compensation Plan, effective as of June 30, 2005.
10.36 <sup>(11)</sup>	First Amendment to DealerTrack Holdings, Inc. Directors' Deferred Compensation Plan effective as of January 1, 2007.
10.37 <sup>(1)</sup>	Employees' Deferred Compensation Plan, effective as of June 30, 2005.
10.38 <sup>(11)</sup>	First Amendment to DealerTrack Holdings, Inc. Employees' Deferred Compensation Plan effective as of January 1, 2007.
10.39 <sup>(1)</sup>	401(k) Plan, effective as of January 1, 2001, as amended.
10.40 <sup>(2)</sup>	Lease Agreement, dated as of August 5, 2004, between iPark Lake Success, LLC and DealerTrack, Inc.

<b>Number</b>	<b>Description</b>
10.41 <sup>(4)</sup>	Lender Integration Support Agreement, dated as of September 1, 2005, between First American CMSI Inc. and DealerTrack, Inc.
10.42 <sup>(7)</sup>	Shares Purchase Agreement, made as of January 16, 2007, among certain shareholders of Curomax Corporation and all of the shareholders of 2044904 Ontario Inc., 2044903 Ontario Inc. and 2044905 Ontario Inc. and 6680968 Canada Inc.
14.1 <sup>(6)</sup>	Code of Business Conduct and Ethics.
21.1+	List of Subsidiaries.
23.1+	Consent of PricewaterhouseCoopers LLP.
23.2*	Consent of PricewaterhouseCoopers LLP.
31.1+	Certification of Mark F. O Neil pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification of Robert J. Cox III pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3++	Certification of Mark F. O Neil pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.4++	Certification of Eric D. Jacobs pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.5*	Certification of Mark F. O Neil pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.6*	Certification of Eric D. Jacobs pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	Certification of Mark F. O Neil and Robert J. Cox III pursuant 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- \* Filed herewith.
- + Previously filed with our Annual Report on Form 10-K filed on February 24, 2009.
- ++ Previously filed with Amendment No. 1 to our Annual Report on Form 10-K filed on April 30, 2009.
- (1) Incorporated by reference to our Registration Statement on Form S-1 (File No. 333-126944) filed July 28, 2005.
- (2) Incorporated by reference to Amendment No. 1 to our Registration Statement on Form S-1 (File No. 333-126944) filed September 22, 2005.
- (3) Incorporated by reference to Amendment No. 2 to our Registration Statement on Form S-1 (File No. 333-126944) filed October 12, 2005.

- (4) Incorporated by reference to Amendment No. 3 to our Registration Statement on Form S-1 (File No. 333-126944) filed October 24, 2005.
- (5) Incorporated by reference to our Quarterly Report on Form 10-Q filed May 12, 2006.
- (6) Incorporated by reference to our Annual Report on Form 10-K filed March 30, 2006.
- (7) Incorporated by reference to our Current Report on Form 8-K dated January 16, 2007 filed January 18, 2007.
- (8) Incorporated by reference to our Quarterly Report on Form 10-Q filed November 14, 2006.
- (9) Incorporated by reference to our Annual Report on Form 10-K filed March 16, 2007.
- (10) Incorporated by reference to Exhibit I to our Definitive Proxy

Statement, filed  
on April 29,  
2008.

- (11) Incorporated by  
reference to our  
Quarterly Report  
on Form 10-Q  
filed August 9,  
2007 .