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)

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

For the fiscal year ended December 31, 2008

o **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	**52-2336218**
(State or Other Jurisdiction of Incorporation or Organization)	***(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	**The NASDAQ Stock Market, LLC**
(Title of each class)	***(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 o No þ

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 o No þ

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 þ No o

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 o No o

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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(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 þ

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

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PART II

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

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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

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DEALERTRACK HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2008	December 31, 2007
	(In thousands, except share and per share amounts)	
ASSETS		
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
LIABILITIES AND STOCKHOLDERS EQUITY		
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

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

	Year Ended December 31,		
	2008	2007	2006
	(In thousands, except per share and share amounts)		
Revenue			
Net revenue (1)	$ 242,706	$ 233,845	$ 173,272
Operating costs and expenses			
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

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

	Year Ended December 31,					
	2008		2007		2006	
	(In thousands)					
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)		
Cash flows from operating activities			
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
Cash flows from investing activities			
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)

Net cash provided by (used in) investing activities	94,874	(168,725)	(168,390)
Cash flows from financing activities			
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 Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Common Stock, In Treasury Shares	Common Stock, In Treasury Amount	Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income	Retained Earnings (Accumulated Deficit)	Total Stockholders Equity	Comprehensive Income
	(In thousands, except share amounts)											
Balance as of January 1, 2006		$	35,379,717	$ 354		$	$ 214,471	$ (7,745)	$ 157	$ (20,566)	$ 186,671	
Exercise of stock options			387,748	4			2,681				2,685	
Directors deferred compensation stock units			14,917				324				324	
Issuance of common stock under employee stock purchase plan			42,137				849				849	
Compensation expense related to the employee stock purchase plan							150				150	
Compensation expense related to the departure of an executive							4,892	112			5,004	
Tax benefit from the exercise of stock options and restricted common stock							2,317				2,317	
Foreign currency translation adjustment									(120)		(120)	(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 Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Common Stock, In Treasury Shares	Common Stock, In Treasury Amount	Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income	Retained Earnings (Accumulated Deficit)	Total Stockholders Equity	Comprehensive Income
					(In thousands, except share amounts)							
Net income										19,336	19,336	19,336
Comprehensive income												$ 19,216
Balance as of December 31, 2006		$	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

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
Balance as of December 31, 2007	$ 42,556,925	$ 426	4,202	$ (139)	$ 413,428	$ (2,056)	$ 8,181	$ 18,522	$ 438,362	

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Common Stock, In Treasury Shares	Common Stock, In Treasury Amount	Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity	Comprehensive Income
	(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.

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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 financials 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.

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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 and 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):

	Year Ended December 31,		
	2008	**2007**	**2006**
Numerator:			
Net income	$ 1,736	$ 19,752	$ 19,336
Denominator:			
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:

	Year Ended December 31,		
	2008	**2007**	**2006**
Stock options	2,257,841	476,464	819,500
Restricted common stock			