DealerTrack Holdings, Inc.
Form 10-K
February 24, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(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, 2009

or

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

Commission file number 000-51653

DEALERTRACK HOLDINGS, INC.
(Exact name of registrant as specified in its charter)\

Delaware (State or other jurisdiction of incorporation or organization)	52-2336218 (I.R.S. Employer 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 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 check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No þ

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 registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any 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, 2009, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $679 million (based on the closing price for the registrant's common stock on the NASDAQ Global Market of $16.99 per share).

As of February 1, 2010, 40,070,756 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant intends to file a proxy statement pursuant to Regulation 14A within 120 days of the end of the fiscal year ended December 31, 2009. Portions of such proxy statement are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

Item 1. Business

Certain statements in this Annual Report on Form 10-K are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements involve a number of risks, uncertainties and other factors that could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors which could materially affect such forward-looking statements can be found in the section entitled “Risk Factors” in Part 1, Item 1A in this Annual Report on Form 10-K. Investors are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are only made as of the date hereof and we will undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

References in this Annual Report on Form 10-K to “DealerTrack,” the “Company,” “our” or “we” are to DealerTrack Holdings, Inc., a Delaware corporation, and/or its subsidiaries.

Overview

DealerTrack’s intuitive and high-value software solutions enhance efficiency and profitability for all major segments of the automotive retail industry, including dealers, lenders, OEMs, agents and aftermarket providers. We believe our solution set for dealers is the industry’s most comprehensive. DealerTrack operates the industry’s largest online credit application network, connecting approximately 17,000 dealers with over 800 lenders. Our dealer management system (DMS) provides dealers with easy-to-use tools with real-time data access that will streamline any automotive business. With our inventory management solution (DealerTrack AAX), dealers get better data along with the tools to make smarter, more profitable inventory decisions. Our sales and finance and insurance (F&I) solution enables dealers to streamline the entire sales process, quickly structuring all types of deals from a single integrated platform. DealerTrack’s compliance solution helps dealers meet legal and regulatory requirements and protect their hard-earned assets. DealerTrack’s family of companies also includes data, accessories and consulting services providers, Automotive Lease Guide (ALG) and Chrome Systems (Chrome).

We are a Delaware corporation formed in August 2001. We are organized as a holding company and conduct a substantial amount of our business through our subsidiaries, including Automotive Lease Guide (alg), Inc., Chrome Systems, Inc., DealerTrack Aftermarket Services, Inc., DealerTrack Canada, Inc., DealerTrack Digital Services, Inc., DealerTrack, Inc., and DealerTrack Systems, Inc.

We maintain a website at www.dealertrack.com. We make available, free of charge through our website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, including exhibits thereto, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after the reports are electronically filed with, or furnished to the Securities and Exchange Commission (the “SEC”). Our reports that are filed with, or furnished to, the SEC are also available at the SEC’s website at www.sec.gov. You may also obtain copies of any of our reports filed with, or furnished to, the SEC, free of charge, at the SEC’s public reference room at 100 F Street, N.E., Washington, DC 20549.

Our Market

Historically, dealers had traditionally relied upon fax and mail delivery methods for processing their financing and insurance offerings. This method produced lengthy processing times and increased the cost of assisting the consumer to obtain financing or insurance. For example, legacy paper systems required the consumer to fill out a paper credit application for each of the lenders to which he or she applied. The dealer then faxed the credit application to each lender and awaited a series of return faxes. When a lender approved the consumer's credit application, the consumer manually signed a paper finance or lease contract with the dealer, who then delivered it with ancillary documents to the lender via mail or overnight courier. The lender then manually checked the contract for any errors or omissions and if the contract or ancillary documents were accurate and complete, the lender paid the dealer for the assignment of the contract. The cumbersome nature of this process can limit the range of options available to consumers and delay the availability of financing. In addition, the sale of insurance and warranty products can be hindered by dealers consulting out-of-date paper program catalogues and not being aware of all of the insurance programs and other aftermarket sales opportunities available to offer the consumer.

Dealers have also employed technology to address inefficiencies in a variety of their other traditional workflow processes. For example, dealers have made significant investments in DMS software to streamline their back office functions, such as accounting, inventory, communications with manufacturers, parts and service, and have deployed customer relationship management (CRM) software to track consumer behavior and maintain active post-sale relationships with consumers to increase aftermarket sales and future automobile sales. However, these DMS and CRM software systems typically reside within the physical dealership and have not historically been fully integrated with each other, resulting in new inefficiencies. These inefficiencies slow the sales and customer management process, as different and sometimes contradictory information is recorded on separate systems. In addition, key information about the consumer may not be provided to the salesperson on the sales floor although it may exist in one of the dealers' systems.

In contrast to most dealer legacy systems, our low cost, high value web-based solutions are generally open and flexible. Our network improves efficiency and reduces processing time for dealers, lenders, and other participants, and integrates the products and services of third-party service and information providers, such as credit reporting agencies and aftermarket providers. We primarily generate revenue on either a transaction or subscription basis, depending on the customer and the product or service provided.

DealerTrack also addresses the inefficiencies in the process in which dealers manage their used vehicles. The procedures to appraise, accept trade ins, market, source and dispose of vehicles have generally been manual procedures not supported by sophisticated technology. DealerTrack AAX assists a dealerships' need to more effectively manage its used vehicle inventory and increase profits at the same time.

Our Customers

We believe our suite of integrated on-demand software addresses many of the inefficiencies in the automotive retail value chain and delivers benefits to dealers, lenders, OEM's, aftermarket providers, and other service and information providers.

Dealers

We offer franchised and independent dealers a suite of low-cost on-demand DMS, inventory management, sales, F&I and compliance solutions that significantly shorten financing processing times, increase efficiencies across the dealership, and allow dealers to spend more time selling automobiles.

Our automated, web-based credit application-processing product allows automotive dealers to originate and route their consumers' credit application information. This product has eliminated the need to fax a paper application to each lender to which a consumer applies for financing. Once a dealer enters a consumer's information into our system, the dealer can distribute the credit application data electronically to one or multiple lenders and obtain credit decisions quickly and efficiently. This service is free to our dealer customers.

We offer a comprehensive DMS, allowing dealers to manage functions across their entire business, and a complete suite of other subscription solutions that complement our credit application processing product, allowing dealers to integrate and better manage their business processes. We offer a compliance solution that helps dealers comply with red flags regulations and offers reporting functions. Additionally, DealerTrack AAX helps dealers manage their inventory and pricing and our sales and F&I solutions streamline the vehicle and aftermarket sales processes. Included in our sales and F&I solutions are products that allow dealers and consumers to complete finance contracts electronically, which a dealer can then transmit to participating lenders for funding, further streamlining the financing process and reducing transaction costs for both dealers and lenders. We give each dealership the ability to select the specific tools they need to reduce costs, increase profits and sell more vehicles.

Lenders

Our on-demand credit application processing and electronic contracting products eliminate expensive and time-consuming inefficiencies in legacy paper systems, and thereby decrease lenders' costs of originating loans or leases. We also offer a contract-processing solution, which can provide lenders with retail automotive contracts and related documents in a digital or electronic format. We believe our solutions significantly streamline the financing process and improve the efficiency and/or profitability of each financing transaction. We electronically transmit complete credit application and contract data, reducing costs and errors and improving efficiency for both prime and non-prime lenders. We also believe that our credit application processing product enables our lender customers to increase credit originations. Our network is configured to enable our lender customers to connect easily with dealers with whom they can establish new business relations. We believe that lenders that utilize our solutions experience a significant competitive advantage over lenders that rely on the legacy paper and fax processes.

OEM's

We offer vehicle manufacturers comprehensive technology and consulting solutions to improve brand health, increase vehicle and accessories sales, and streamline interactions with franchised dealerships. Our solutions help improve residual vehicle values and consumer brand perception with automotive OEM consulting services and tools from ALG. Our solutions boost the selling power of a dealer website and maximize accessories sales with fully functional and customizable build, price and competitive-comparison solutions from Chrome. In addition, DealerTrack DMS streamlines manufacturer interactions by integrating warranty claims, part orders and returns, and financial statement submission.

Aftermarket Providers

The DealerTrack Aftermarket Network™ gives dealers access to real-time contract rating information and quote generation, and provides digital contracting for aftermarket products and services. The aftermarket sales and contracting process was previously executed through individual aftermarket providers' websites or through a cumbersome paper-based process prone to frequent delays and errors. Our on-demand connection between dealers and aftermarket providers creates a faster process, improves accuracy, and eliminates duplicate data entry for both dealers and aftermarket providers. We believe this more efficient process combined with the use of our on-demand electronic menu product makes it possible for dealers to more effectively sell aftermarket products and services.

Other Service and Information Providers

We believe that our software as a service model is a superior method of delivering products and services to our customers. Our web-based solutions enable third-party service and information providers to deliver their products and services more broadly and efficiently, which increases the value of our integrated solutions to our dealer customers. We believe we offer our third-party service and information providers a secure and efficient means of delivering their data to our dealer and lender customers. For example, the credit reporting agencies can provide dealers with consumers' credit reports electronically and integrate the delivery of the prospective consumers' credit reports with our credit application processing and other products. Additionally, our inventory management solution integrates real time pricing data and wholesale auction data to give dealers access to available market information.

Our Web-based Network

Our web-based network is independent and does not give any single lender preference over any other lender. Each dealer sees its individualized list of available lenders listed alphabetically, based on our proprietary matching process, and can transmit credit application information simultaneously to multiple lenders that they select. Lenders' responses to requests for financing through our network are presented back to the dealer in their order of response.

Our Growth Strategy

Our growth strategy is to leverage our position as a leading provider of on-demand software solutions to the U.S. and Canadian automotive retail industries. Key elements of our growth strategy are:

Expand Our Customer Base

We intend to increase our market penetration by expanding our automotive dealer and lender customer base through the efforts of our direct sales force. While as of December 31, 2009 we had over 800 active lender customers in the United States, we will focus on adding select regional banks, credit unions, financing companies, and the captive financing affiliates of automotive manufacturers to our network. We also intend to increase the number of other service and information providers in our networks by adding, among others, insurance and other aftermarket service providers. Additionally, we have increased our installation capacity for our DMS business in order to expand our customer base for that solution.

Sell Additional Products and Services to Our Existing Customers

We believe that a significant market opportunity exists for us to sell additional products and services to our approximately 17,000 active dealer customers that utilize our credit application processing product, and have purchased one or more of our subscription-based products or services. Similarly, the over 800 lenders that utilize our U.S. credit application processing network represent a market opportunity for us to sell our electronic and digital contracting solutions.

Expand Our Offerings

We expect to expand our suite of products and services to address the evolving needs of our customers. We market our products as four integrated solutions: DMS, Inventory Management, Sales and F&I, and Compliance. We have identified a number of opportunities to leverage our network of relationships and our core competencies to benefit dealers, lenders and other service and information providers. For example, we expanded our DMS solution through the integration of OEM dealer communication systems specifically for Audi, Hyundai, and Kia, provided significant enhancements for Honda and General Motors in the United States and introduced our DMS in Canada. We are committed to being an open technology partner with our dealers and further integrating our solutions with third parties to meet their needs. We also are continuing to add reporting capability to our compliance solution and third-party integrations to our inventory management solution.

Pursue Acquisitions and Strategic Alliances

We have augmented the growth of our business by completing strategic acquisitions. In executing our acquisition strategy, we have focused on identifying businesses that we believe will increase our market share or that have products, services and technology that are complementary to our product and service offerings. We believe that our success in completing these acquisitions and integrating them into our business has allowed us to maintain our leadership position in the industry, enhance our network of relationships and accelerate our growth. We intend to continue to grow and advance our business through acquisitions and strategic alliances. We believe that acquisitions and strategic alliances will allow us to enhance our product and service offerings, sell new products using our networks, strengthen technology offerings and/or increase our market share.

Our Solutions

DealerTrack markets its dealer-facing solutions under the DealerTrack Performance Suite umbrella brand. The solutions fit within four categories: DMS, Inventory, Sales and F&I, and Compliance.

Solutions	Products and Services	Subscription/Transaction
Dealer Management System (DMS) Solution:	• DealerTrack DMS	• Subscription
Inventory Management Solutions:	• DealerTrack AAX ®	• Subscription
Sales and F&I Solution:	• DealerTrack credit application network (On-line credit application processing platform and credit bureau access platform)	• Transaction
	• SalesMaker ™	• Subscription
	• BookOut	• Subscription
	• DealerTrack eMenu™	• Subscription
	• DealerTrack Aftermarket Network™	• Transaction
	• DealerTrack eContracting ™	• Subscription and Transaction
	• eDocs (for lenders)	• Transaction
	• DealTransfer ®	• Subscription
Compliance Solution:	• DealerTrack Compliance Solution™	• Subscription
	• DealerTrack eMenu™	• Subscription

Each of our four integrated solutions are supported by our Data Services, which include ALG Data Services, Chrome New Vehicle Data, Chrome VIN Match, Chrome Construct, Automotive Description Services, Chrome IQ, Chrome BookLink, Chrome Carbook Showroom ®, PC Carbook ®, Carbook Fleet Edition, Chrome Accessories Solution and Chrome Interactive Media. We generally charge our customers a subscription fee to use these products.

We generally charge dealers a monthly subscription fee for each of our solutions. A transaction fee is generally charged to our lender customers for each credit application that dealers submit to them and for each financing contract executed via our electronic contracting and digital contract processing solution, as well as for any portfolio residual value analyses we perform for them. We charge a transaction fee to the dealer or credit report provider for each fee-bearing credit report accessed by dealers. We charge transaction fees to aftermarket providers for each aftermarket contract executed and delivered to them from our network.

DMS Solution:

DealerTrack DMS —DealerTrack DMS is a dealer management system that gives dealers control of their business across every department. It is an open platform that allows dealers to integrate and manage all the primary functions of their store operations including: vehicle sales, portfolio management, showroom management, service department, general ledger, automated dispatching, parts inventory and invoicing, electronic repair order, service price guides, vehicle inventory, contact management, payroll and personnel management.

Inventory Management Solution:

DealerTrack AAX ® — DealerTrack AAX is a full-featured inventory system. Dealers can identify high-profit, fast turning vehicles, quickly and easily adjust price to be more competitive. The robust enterprise reporting is designed for multi-store inventory optimization. Daily performance tracking is enabled by real time reporting and custom built inventory modeling. Consulting services optimize inventory management and enhance product performance. The solution also includes functionality to help a dealer appraise vehicles, source vehicles and access vehicle pricing recommendations, vehicle performance scores, as well as dealership transactional history.

Sales and F&I Solution:

A dealer can choose one or more of the sales and F&I solutions subscriptions as listed below:

DealerTrack credit application network — Our DealerTrack credit application network facilitates the online credit application process by enabling dealers to transmit a consumer's credit application information to one or multiple lenders and obtain credit decisions quickly and efficiently as well as pull credit bureau data. Generally, our dealer customers maintain active relationships with numerous lenders. We offer each lender customer the option to provide other value-added services to dealers that facilitate the financing process, including dealer reserve statements, payoff quotes, prospect reports for consumers nearing the end of their current loan or lease and reports of current financing rates and programs.

SalesMaker ™ — SalesMaker is a profit management system enabling dealers to search the hundreds of current lender programs in our database, and, within seconds, find the financing or lease program that is best for a consumer and the most profitable for the dealership. SalesMaker also assists dealers in finding financing for consumers with low credit scores, while maximizing their own profit. In addition, dealers can quickly pre-qualify prospective consumers and then match the best lender program against their available inventory. SalesMaker represents the integration and enhancement of our previous DeskLink and FinanceWizard products.

BookOut — With BookOut, a dealer can quickly and easily look up used automobile values by year/make/model or vehicle identification number for use in the credit application process. We currently offer separate BookOut subscriptions for data provided by Black Book, Kelley Blue Book and NADA. These products facilitate the financing process by providing dealers with reliable valuation information about the relevant automobile. BookOut is also a product offering in the inventory management solution.

DealerTrack eMenu ™ — DealerTrack eMenu allows dealers to consistently present consumers with the full array of insurance and other aftermarket product options they offer in a menu format. The product also creates an auditable record of the disclosures to consumers during the aftermarket sales process, helping to reduce dealers' potential legal risks. DealerTrack eMenu is also a product offering in the compliance solution.

DealerTrack Aftermarket Network ™ — The DealerTrack Aftermarket Network provides real-time aftermarket contract rating and quote generation from participating providers of aftermarket products. Categories of aftermarket products represented on the network include extended service contracts, GAP, etch, credit life and disability insurance, and vehicle recovery systems. Since the DealerTrack Aftermarket Network is fully integrated into the DealerTrack network, we expect both dealers and aftermarket providers will benefit from improved accuracy and elimination of duplicate data entry.

DealerTrack eContracting and eDocs — Our DealerTrack eContracting product allows dealers to obtain electronic signatures and transmit contracts and contract information electronically to lenders that participate in eContracting. eContracting increases the speed of the automotive financing process by replacing the cumbersome paper contracting process with an efficient electronic process. Our eDocs digital contract processing service receives paper-based contracts from dealers, digitizes the contracts and submits them electronically to the appropriate lender. Together, eDocs and eContracting enable lenders to create a 100% digital contract workflow.

DealTransfer® — DealTransfer permits dealers to transfer transaction information directly between select dealer management systems and our DealerTrack credit application network with just a few mouse clicks. This allows dealers to avoid reentering transaction information once the information is on any of the dealer's systems.

Compliance Solution:

DealerTrack Compliance Solution ™ — DealerTrack compliance solution provides automotive dealers with a safe and reliable method to sign, store and protect customer and financing activity at the dealership. It also provides safeguards, such as limited access to sensitive information based on a user's role and permission, to help reduce compliance risk by handling every customer financing deal consistently.

DealerTrack eMenu ™ — DealerTrack eMenu allows dealers to consistently present consumers with the full array of insurance and other aftermarket product options they offer in a menu format. The product also creates an auditable record of the disclosures to consumers during the aftermarket sales process, helping to reduce dealers' potential legal risks.

Data Services:

ALG Residual Value Guides — ALG Residual Value Guides are the industry standard for the residual value forecasting of vehicles. New car residual values are available in a national percentage guide, as well as regional dollar guides. Lenders and dealers use ALG Residual Value Guides as the basis to create leasing programs for new and used automotive leases.

ALG Data Services — ALG is the primary provider of vehicle residual value data to automotive industry participants, including manufacturers, banks and other lenders, desking software companies and automotive websites.

Chrome New Vehicle Data — Chrome New Vehicle Data identifies automobile prices, as well as the standard and optional equipment available on particular automobiles. Dealers provide Chrome's data on their websites and lenders use the data in making financing decisions.

Chrome VINMatch — Chrome VINMatch converts a nondescript VIN, or Vehicle Identification Number, into a rich description of a vehicle. Chrome's vehicle descriptions allow dealers to get an accurate vehicle description and drill down to not only the year, make, and model, but unearthing engine type, fuel system, and even GVWR (Gross Vehicle Weight Ranges).

Chrome Construct — Chrome Construct combines vehicle research, configuration and comparison tools into a single web service. The data is provided and maintained by Chrome.

Chrome Automotive Description Service (ADS) and ChromeIQ — Chrome ADS is a web service that turns a VIN into a rich description of a vehicle, including prices, options, colors and standard equipment. Chrome IQ converts batches of VINs into rich vehicle descriptions.

Chrome BookLink— Chrome BookLink allows customers to quickly and easily map between Chrome's New Vehicle Data and a used book provider without having to implement, host, or update mapping tables.

Chrome Carbook Showroom ®, PC Carbook ® and Carbook Fleet Edition — Carbook Showroom, PC Carbook and Carbook Fleet Edition provide automotive specification and pricing information. These products enable dealers, fleet managers, financial institutions and consumers to specify and price a new and used automobile online, which helps promote standardized information among these parties and facilitates the initial contact between buyer and seller.

Chrome Interactive Media — Chrome Interactive Media includes vehicle still photographs and full motion vehicle video for use on dealer and auto industry portal websites. The products are used to present an accurate, high-impact view of vehicles to facilitate sales.

Chrome Accessories Solution — Chrome Accessories Solution provides OEMs with a complete digital marketing and accessories sales system for their dealer network and websites. This includes a catalog of accessories with eCommerce capabilities for dealer websites and an in-showroom sales and fulfillment system.

International

Our subsidiary, DealerTrack Canada Inc., is a leading provider of on-demand credit application and contract processing services to the indirect automotive finance industry in Canada. Historically, we have provided our Canadian customers with only our credit application and contract processing products. In 2007, we began offering them select subscription products. For the year ended December 31, 2009, 2008 and 2007, our Canadian operations generated approximately 11%, 11% and 10% of our net revenue, respectively.

Technology

Our technology platform is robust, flexible and extendable and is designed to be integrated with a variety of other technology platforms. We believe our open architecture is fully scalable and designed for high availability, reliability and security. Product development expense for the years ended December 31, 2009, 2008, and 2007 was $14.0 million, $11.7 million and $9.8 million, respectively. Our technology includes the following primary components:

Web-Based Interface

Our customers access our on-demand application products and services through an easy-to-use web-based interface. Our web-based delivery method gives us control over our applications and permits us to make modifications at a single central location. We can easily add new functionality and deliver new products to our customers by centrally updating our software on a regular basis.

Partner Integration

We believe that our on-demand model is a uniquely suited method of delivering our products and services to our customers. Our customers can access our highly specialized applications on-demand, avoiding the expense and difficulty of installing and maintaining them independently. Our lender integration and partner integration use XML encoded messages. We are a member of both Standards for Technology in Automotive Retail (STAR) and American Financial Services Association (AFSA) and are committed to supporting published standards as they evolve.

Infrastructure

Our technology infrastructure is hosted externally and consists of production sites and a disaster recovery site. The production site for the DealerTrack network and the DealerTrack DMS network are fully hardware redundant. Our customers depend on the availability and reliability of our products and services and we employ system redundancy in order to minimize system downtime.

Security

We maintain high security standards with a layered firewall environment and employ an intrusion detection system. Our firewalls and intrusion detection system are both managed and monitored continuously by an independent security management company. Our communications are secured using secure socket layer 128-bit encryption. We also utilize a commercial software solution to securely manage user access to our applications. All incoming traffic must be authenticated before it is authorized to be passed on to the application. Once a user has been authorized, access control to specific functions within the site is performed by the application. Our access control system is highly granular and includes the granting and revocation of user permissions to functions on the site.

We maintain a certification from Verizon Cybertrust Security, a leading industry security certification body, for the DealerTrack network. This certification program entails a comprehensive evaluation of our security program, including extensive testing of our website's perimeter defenses. As a result of this process, recommendations are made and implemented. The certification program requires continual monitoring and adherence to critical security policies and practices.

Customer Development and Retention

Sales

Our sales resources are focused on four primary areas: dealers, lenders, aftermarket providers, and other industry providers. Our sales resources strive to increase the number of products and services purchased or used by existing customers and also to sell products and services to new customers. Our dealer sales resources focus on selling our subscription-based products and services to dealers through field sales and telesales efforts, and also support the implementation of subscription-based and transaction-based products for dealers. Lender relationships are managed by a team that also focuses on adding more lenders to our DealerTrack credit application network and increasing the use of our eContracting and eDocs solutions. Relationships with our aftermarket providers are managed by a team that also focuses on adding more aftermarket providers to the network. Relationships with other providers (including automotive manufacturers) are managed across various areas of our organization.

Training

We believe that training is important to enhancing the DealerTrack brand and reputation and increasing utilization of our products and services. Training is conducted via telephone, the Internet and in person at the dealership. In training our dealers, we emphasize utilizing our network to help them increase profitability and efficiencies.

Marketing

Our marketing strategy is to establish our brand as the leading provider of on-demand software solutions for dealers, lenders, OEM's, aftermarket providers and other industry providers. Our marketing approach is to employ multiple off-line and on-line channels, targeted at key executives and other decision makers within the automotive retail industry, such as:

- advertising in automotive trade magazines and other periodicals;
- public relations through press releases and publication of news and thought leadership articles;
- direct marketing employing mail and e-mail delivered to buyers and influencers in dealer and lender markets;
- participation in industry events;
- employing our website to offer services, and provide product and company information;
- search marketing to increase visibility in search engine result pages; and
- promotions and sponsorships on national and regional levels.

Customer Service

We believe superior customer support is important to retaining and expanding our customer base. We have a comprehensive technical support program to assist our customers in maximizing the value they get from our products and services and solving any problems or issues. We provide telephone support, e-mail support and online information and consulting services about our products and services. Our customer service group handles general customer inquiries, such as questions about resetting passwords, how to subscribe to products and services, the status of product subscriptions and how to use our products and services, and is available to customers by telephone, e-mail or over the web. Our technical support specialists are extensively trained in the use of our products and services.

Customers

Our primary customers are dealers and lenders. Our network of lenders includes national and regional prime, near prime and non-prime lenders; regional and local banks, captive lenders and credit unions. As of December 31, 2009, we had approximately 17,000 active dealers and over 800 lenders active in our network. The subscription agreements with our dealers typically run for one to three years, with one-year automatic extensions, except for our U.S. DMS agreements, which have more flexible terms. Our initial agreements with our lender customers typically run for two years, with one-year automatic extensions. No customer represented more than 10% of our revenue for the year ended December 31, 2009.

Competition

The market for our solutions in the U.S. automotive retail industry is highly competitive, fragmented and subject to changing technology, shifting customer needs and frequent introductions of new products and services. Our current principal competitors include:

- web-based automotive finance credit application processors, including AppOne, CUDL, Finance Express, Open Dealer Exchange, and RouteOne;
- proprietary finance credit application processing systems, including those used and provided to dealers by American Honda Finance Corp., Volkswagen Credit and BMW Financial Services;
- dealer management system providers, including ADP, Inc. and The Reynolds and Reynolds Company;
- automotive retail sales desking providers, including ADP, Inc. and Market Scan Information Systems, Inc.;
- vehicle configuration providers, including Autodata Solutions Company, R.L. Polk & Co. and JATO Dynamics, Inc.;
- providers of services related to aftermarket products, including MenuVantage and the StoneEagle Group;
- providers of inventory analytic tools, including First Look, LLC and vAuto, Inc., and;
- providers of compliance solutions; including Compli and the three credit reporting agencies.

DealerTrack also competes with warranty and insurance providers, as well as software providers, among others, in the market for menu-selling products and services. Some of our competitors may be able to devote greater resources to the development, promotion and sale of their products and services than we can to ours, which could allow them to respond more quickly than we can to new technologies and changes in customer needs. In particular, RouteOne, a joint venture formed and controlled by Chrysler Financial Corporation (CFC), Ford Motor Credit Corporation (FMCC), General Motors Acceptance Corporation (GMAC) and Toyota Financial Services (TFS). RouteOne has relationships with CFC, FMCC and TFS and other affiliated captive lenders that are not part of our network and had an exclusive relationship with GMAC until February 10, 2010, when we entered into a strategic relationship with GMAC. Under the terms of the agreement, GMAC will be listed as a financing option on the DealerTrack credit application processing network. GMAC will be available to General Motors and Chrysler dealers, as well as dealers of other manufacturers that GMAC elects to do business with. GMAC will continue to accept credit applications through the RouteOne system. Additionally, on January 21, 2009, ADP, Inc. and Reynolds, announced a joint venture, Open Dealer Exchange, who may have the ability to build on its joint venture partner's relationships in providing DMS software to over 80% of U.S. franchised dealers. Our ability to remain competitive will depend to a great extent upon our ability to execute our growth strategy, as well as our ongoing performance in the areas of product development and customer support.

Government Regulation

The indirect automotive financing and automotive retail industries are subject to extensive and complex federal and state regulations. Our customers, such as banks, finance companies, savings associations, credit unions and other lenders, and automotive dealers, operate in markets that are subject to rigorous regulatory oversight and supervision. Our customers must ensure that our products and services work within the extensive and evolving regulatory requirements applicable to them, including those under the Consumer Credit Protection Act, the Gramm-Leach-Bliley Act (the “GLB Act”), the FACT Act of 2003, the Federal Reserve Board’s regulations relating to consumer protection and privacy, the Interagency Guidelines Establishing Information Security Standards, the Interagency Guidance on Response Programs for Unauthorized Access to Customer Information and Customer Notice, the Federal Trade Commission’s (“FTC”) Privacy Rule, Safeguards Rule, and Consumer Report Information Disposal Rule, Regulation AB, the regulations of the Federal Reserve Board, the Fair Credit Reporting Act (“FCRA”) and other state and local laws and regulations. In addition, entities such as the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the National Credit Union Administration and the FTC have the authority to promulgate rules and regulations that may impact our customers, which could place additional demands on us.

The role of our products and services in assisting our customers’ compliance with these requirements depends on a variety of factors, including the particular functionality, interactive design, and classification of the customer. We are not a party to the actual transactions that occur in our network. Our lender, aftermarket provider and automotive dealer customers must assess and determine what applicable laws and regulations require of them and are responsible for ensuring that their use of our product and services conform to their regulatory needs.

Consumer Privacy and Data Security Laws

Consumer privacy and data security laws on the federal and state levels govern the privacy and security of consumer information generally and may apply to our business in our capacity as a service provider for regulated financial institutions and automotive dealers that are subject to the GLB Act and applicable regulations, including the FTC’s Privacy Rule, Safeguards Rule and Consumer Report Information Disposal Rule.

These laws and regulations restrict our customers’ ability to share nonpublic personal consumer information with non-affiliated companies, as well as with affiliates under certain circumstances. They also require certain standards for information security plans and operations, including standards for consumer information protection and disposal, and notices to consumers in the event of certain security breaches. If we, a lender, an aftermarket provider or a dealer experience a security breach resulting in unauthorized access to consumer information provided through our network, we may be subject to claims from such consumers or enforcement actions by state or federal regulatory authorities.

Legislation is pending on the federal level and in most states that could impose additional duties on us relating to the collection, use or disclosure of consumer information, as well as obligations to secure that information. Currently, 46 states have laws mandating notices to affected consumers in the event of an actual or suspected unauthorized access to or use of information contained within our system. In December 2009, the U.S. House of Representatives passed a bill that would provide for a uniform national notice policy for security breaches. The FTC and federal banking regulators have also issued regulations requiring regulated financial institutions to obtain certain assurances and contractual protections relating to the security and disposal of information maintained by service providers such as us.

While we believe our current business model is consistent with existing laws and regulations, emerging case law and regulatory enforcement initiatives, as well as the passage of new laws and regulations, may limit our ability to use information to develop additional revenue streams in the future.

Fair Credit Reporting Act

The FCRA imposes limitations on the collection, distribution and use of consumer report information and imposes various requirements on providers and users of consumer reports and any information contained in such reports. Among other things, the FCRA limits the use and transfer of information that qualifies as a consumer report, and imposes requirements on providers of information to credit reporting agencies and resellers of consumer reports with respect to ensuring the accuracy and completeness of the information and assisting consumers who dispute information in their consumer reports or seek to obtain information involving theft of their identity. The communication or use of consumer report information in violation of the FCRA could, among other things, result in a provider of information or reseller of consumer reports being deemed a consumer reporting agency, which would subject the provider or reseller to all of the compliance requirements applicable to consumer reporting agencies contained in the FCRA and applicable regulations. Willful violations of the FCRA can result in statutory and punitive damages. A new regulation requiring creditors to give risk-based pricing notices to certain consumers whose credit score precluded them from getting the best terms for credit will take effect on January 1, 2011.

State Laws and Regulations

The GLB Act and the FCRA contain provisions that preempt some state laws to the extent the state laws seek to regulate the distribution and use of consumer information. The GLB Act does not limit states' rights to enact privacy legislation that provides greater protections to consumers than those provided by the GLB Act. The FCRA generally prohibits states from imposing any requirements with respect only to certain specified matters and it is possible that some state legislatures or agencies may limit the ability of businesses to disclose consumer information beyond the limitations provided for in the GLB Act or the FCRA. For example, almost all states permit consumers to "freeze" their credit bureau files under certain circumstances and the three national credit bureaus (Equifax, Experian and TransUnion) now give this right to all customers. Our automotive dealer customers remain subject to the laws of their respective states in such matters as consumer protection and unfair and deceptive trade practices. Recently, certain states have passed laws requiring specific security protections for maintaining or transmitting the personal information of state residents.

Revised Uniform Commercial Code Section 9-105, E-SIGN and UETA

In the United States, the enforceability of electronic transactions is primarily governed by the Electronic Signatures in Global and National Commerce Act, a federal law enacted in 2000 that largely preempts inconsistent state law, and the Uniform Electronic Transactions Act, a uniform state law that was finalized by the National Conference of Commissioners on Uniform State Laws in 1999 and has been adopted by almost every state. Case law has generally upheld the use of electronic signatures in commercial transactions and in consumer transactions where proper notice is provided and the consumer consents to transact business electronically are obtained. The Revised Uniform Commercial Code Section 9-105 ("UCC 9-105") provides requirements to perfect security interests in electronic chattel paper. These laws impact the degree to which the lenders in our network use our electronic contracting (eContracting) product. We believe that our eContracting product enables the perfection of a security interest in electronic chattel paper by meeting the transfer of "control" requirements of UCC 9-105. Certain of our financial institution clients have received third-party legal opinions to this effect. However, this issue has not been challenged in any legal proceeding. If a court were to find that our eContracting product is not sufficient to perfect a security interest in electronic chattel paper, or if existing laws were to change, our business, prospects, financial condition and results of operations could be materially adversely affected. Federal and state regulatory requirements imposed on our lender customers, such as the SEC's Regulation AB relating to servicers of asset backed securities, may also result in our incurring additional expenses to facilitate lender compliance regarding the use of our eContracting product.

Internet Regulation

We are subject to federal, state and local laws applicable to companies conducting business on the Internet. Today, there are relatively few laws specifically directed towards online services. However, due to the increasing popularity and use of the Internet and online services, laws and regulations may be adopted with respect to the Internet or online services covering issues such as online contracts, user privacy, freedom of expression, pricing, fraud liability, content and quality of products and services, taxation, advertising, intellectual property rights and information security. Proposals currently under consideration with respect to Internet regulation by federal, state, local and foreign governmental organizations include, but are not limited to, the following matters: on-line content, user privacy, restrictions on email and wireless device communications, data security requirements, taxation, access charges and so-called "net neutrality", liability for third-party activities such as unauthorized database access, and jurisdiction. Moreover, we do not know how existing laws relating to these issues will be applied to the Internet and whether federal preemption of state laws will apply.

Intellectual Property

Our success depends, in large part, on our intellectual property and other proprietary rights. We rely on a combination of patent, copyright, trademark and trade secret laws, employee and third-party non-disclosure agreements and other methods to protect our intellectual property and other proprietary rights. In addition, we license technology from third parties.

We have been issued a number of utility patents in the United States and have patent applications pending in the United States, Canada and Europe, including patents that relate to a system and method for credit application processing and routing. We have both registered and unregistered copyrights on aspects of our technology. We have a U.S. federal registration for the mark "DealerTrack." We also have U.S. federal registrations and pending registrations for several additional marks we use and claim common law rights in other marks we use. We also have filed some of these marks in foreign jurisdictions. The duration of our various trademark registrations varies by mark and jurisdiction of registration. In addition, we rely, in some circumstances, on trade secrets law to protect our technology, in part by requiring confidentiality agreements from our vendors, corporate partners, employees, consultants, advisors and others.

Industry Trends

We are impacted by trends in both the automotive industry and the credit finance markets. Our financial results are impacted by trends in the number of dealers serviced and the level of indirect financing and leasing by our participating lender customers, special promotions by automobile manufacturers and the level of indirect financing and leasing by captive finance companies not available in our network. The United States and global economies are currently undergoing a period of economic uncertainty, and the financing environment, automobile industry and stock markets are experiencing high levels of volatility. The tightening of the credit markets has caused a significant decline in the number of lending relationships between the various lenders and dealers available through our network as dealers and financing sources have exited the market, as well as reduced the total number of vehicles financed. Purchases of new automobiles are typically discretionary for consumers and have been, and may continue to be, affected by negative trends in the economy, including the cost of energy and gasoline, the availability and cost of credit, the declining residential and commercial real estate markets, reductions in business and consumer confidence, stock market volatility and increased unemployment. 2008 and 2009 have been the worst years for selling vehicles since 1982 and while automobile sales are expected to increase in 2010, they will remain low as compared to historical levels. As a result of reduced car sales and the general economic environment, two major automobile manufacturers, Chrysler and General Motors have filed and emerged from bankruptcy in the past year. This has had a significant impact on their franchised dealers both in terms of dealer closing and the financial viability of their remaining dealers. Toyota has suffered significant recalls that have limited its ability to sell new vehicles for a period of time and potentially decreased the value of Toyota used vehicles, whose impact on its dealer base remains to be seen. Additionally, the impact of the federal government's Cash for Clunkers program, which occurred during the third quarter of 2009, continued to be felt by us during the fourth quarter with respect to both new and used car sales. The approximately 700,000 in auto sales from the program resulted in a slight pull forward of new car demand from the fourth quarter into the third quarter and a sharp decline in used car sales during the fourth quarter due in large part to the fact that cars traded in for the Cash for Clunkers program had to be destroyed, not resold, and therefore supply of used cars was reduced. In addition, the supply of used cars was negatively affected as some dealers faced cash flow issues due to the difficulty in collecting the $3 billion in Cash for Clunker program reimbursements from the government in a timely fashion, and were therefore unable to buy as many used cars at auction. Together, these factors have meaningfully impacted our transaction volume and subscription cancellations compared to historical levels. 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 impair 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 worsen for a period of time.

Due to the economic downturn, there has been continued automotive dealer consolidation and the number of franchised automotive dealers declined in 2008 and further declined in 2009. General Motors (GM), which filed for bankruptcy on June 1, 2009, has stated that it notified approximately 1,124 dealers prior to their bankruptcy filing that one or more of their franchise licenses would be terminated by October 2010 and there are industry reports that approximately an additional 450 dealers may be terminated. In addition, GM announced on September 30, 2009 that it would shut down its Saturn division by next year after efforts to sell the brand failed. There are approximately 350 Saturn dealerships in the United States. Chrysler, which filed for bankruptcy on May 1, 2009, had announced dealer reduction as a major aim, and 789 of its dealerships' franchise agreements were terminated on June 9, 2009. We cannot predict if the reduction of GM's and Chrysler franchises will be limited to the dealers that have received notice to date. In addition, while Chrysler closures were made public, GM has yet to publicly release the specific dealers impacted. While recent federal legislation allowing for terminated GM and Chrysler dealers to seek reinstatement may reduce the impact of the bankruptcies on the GM and Chrysler franchised dealers on our business, it is unknown what, if any, effect such legislation will have. As a result of these factors, we cannot predict the timing and impact these dealership reductions will have on our subscription products. As of December 31, 2009, approximately 1,522 Chrysler dealers and 2,905 GM dealers, which include 181 Saturn dealers, had subscriptions for one or more of our products. The elimination by GM and Chrysler of dealers with subscription products has led to an increase in cancellations and will most likely result in additional cancellations of those subscriptions and corresponding loss of revenue. Further, a reduction in the number of automotive dealers reduces the number of opportunities we have to sell our subscription products. Additionally, dealers who close their businesses may not pay the amounts owed to us, resulting in an increase in our bad debt expense.

Employees

As of December 31, 2009, we had approximately 1,200 employees. None of our employees is represented by a labor union. We have not experienced any work stoppages and believe that our relations with our employees are good.

Item 1A. Risk Factors

You should carefully consider the following risk factors, as well as the more detailed descriptions of our business elsewhere in this Annual Report on Form 10-K . The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently deem immaterial may also materially adversely affect our business, prospects, financial condition or results of operations. Our business, prospects, financial condition or results of operations could be materially and adversely affected by the following:

Economic trends that affect the automotive retail industry or the indirect automotive financing industry may have a negative effect on our business.

Economic trends that negatively affect the automotive retail industry or the indirect automotive financing industry may adversely affect our business by further reducing the amount of indirect automobile financing transactions that we earn revenue on, the number of lender or automotive dealer customers that subscribe to our products and services or money that our customers spend on our products and services. Purchases of new automobiles are typically discretionary for consumers and have been, and may continue to be, affected by negative trends in the economy, including the cost of energy and gasoline, the availability and cost of credit, the declining residential and commercial real estate markets, reductions in business and consumer confidence, stock market volatility and increased unemployment. A reduction in the number of automobiles purchased by consumers could continue to adversely affect our lender and dealer customers and lead to a reduction in transaction volumes and in spending by these customers on our subscription products and services. New car sales declined significantly in 2009 and are projected to only increase slightly in 2010. Additionally, a certain number of our lender customers are dependent on continued access to the capital markets, which have contracted as of late, in order to fund their lending activities. These negative trends may result in our lenders further reducing the number of automobile dealers that they service or the number of contracts that they make which could result in a reduction in the number of credit applications that are processed through our network. Additionally, due to the economic downturn, there has been continued automotive dealer consolidation and the number of franchised automotive dealers declined in 2009 and is projected to further decline in 2010. A bankruptcy filing by a major automobile manufacturer would further accelerate this consolidation trend. To the extent that these dealers have subscription products, the consolidation will result in cancellation of those products. Further, a reduction in the number of automotive dealers reduces the number of opportunities we have to sell our subscription products. Additionally, dealers who close their businesses may choose to not pay those amounts owed to us, resulting in an increase in our bad debt.

Any such reductions in transactions or subscriptions or an increase in our bad debt could have a material adverse effect on our business, prospects, financial condition and results of operations.

We may be unable to continue to compete effectively in our industry.

Competition in the automotive retail technology industry is intense. The indirect automotive retail finance industry is highly fragmented and is served by a variety of entities, including DMS providers, web-based automotive finance credit application processors, the proprietary credit application processing systems of the lender affiliates of automobile manufacturers, automotive retail sales desking providers and vehicle configuration providers. DealerTrack also competes with warranty and insurance providers, as well as software providers, among others, in the market for DMS, menu-selling products and services, compliance products and inventory analytics. Some of our competitors have longer operating histories, greater name recognition and significantly greater financial, technical, marketing and other resources than we do. Many of these competitors also have longstanding relationships with dealers and may offer dealers other products and services that we do not provide. As a result, these companies may be able to respond more quickly to new or emerging technologies and changes in customer demands or to devote greater resources to the development, promotion and sale of their products and services than we can to ours. We expect the market to continue to attract new competitors and new technologies, possibly involving alternative technologies that are more sophisticated and cost-effective than our technology. There can be no assurance that we will be able to compete successfully against current or future competitors or that competitive pressures we face will not materially adversely affect our business, prospects, financial condition and results of operations.

We may face increased competition from AppOne, CUDL, Finance Express, Open Dealer Exchange and RouteOne.

ADP, Inc. and Reynolds and Reynolds, the two largest providers of DMS systems, have recently formed Open Dealer Exchange as a joint venture to compete with our online portal application business. Open Dealer Exchange plans to leverage its owners' penetration of the DMS space to better integrate the loan origination process into the dealer's transactional, point-of-sale system, thereby giving them a competitive advantage. Additionally, our network of lenders does not include the captive lenders affiliated with Chrysler LLC, Ford Motor Company, General Motors Corporation or Toyota Motor Corporation, which have formed RouteOne to operate as a direct competitor of ours to serve their respective franchised dealers. RouteOne has the ability to offer its dealers access to captive or other lenders that are not in our network. RouteOne was launched in November 2003, and officially re-launched in July 2004. A significant number of independent lenders, including many of the independent lenders in our network, are participating on the RouteOne credit application processing and routing portal. If either Open Dealer Exchange or RouteOne increases the number of independent lenders on its credit application processing and routing portal and/or offers products and services that better address the needs of our customers or offer our customers a lower-cost alternative, and/or our dealer customers faster portals, our business, prospects, financial condition and results of operations could be materially adversely affected. In addition, if a substantial amount of our current customers migrate from our network to Open Dealer Exchange or RouteOne, our ability to sell additional products and services to, or earn transaction services revenue from, these customers could diminish. We believe that both Open Dealer Exchange and RouteOne have repeatedly approached certain of our largest lender customers seeking to have them join their credit application processing and routing portal. In addition, CU Direct Corporation, through its CUDL portal, has directly targeted credit unions, which comprise a large number of our lender customers. Finance Express and AppOne have targeted the independent dealer channel.

Some vendors of software products used by automotive dealers, including certain of our competitors, are designing their software and using financial or other incentives to make it more difficult for our customers to use our products and services.

Currently, some software vendors, including some of our competitors, have designed their software systems in order to make it difficult to integrate with third-party products and services such as ours and others have announced their intention to do so. Some software vendors also use financial or other incentives to encourage their customers to purchase such vendors' products and services. These obstacles could make it more difficult for us to compete with these vendors and could have a material adverse effect on our business, prospects, financial condition and results of operations. Further, we have agreements in place with various third-party software providers to facilitate integration between their software and our network, and we cannot assure you that each of these agreements will remain in place or that during the terms of these agreements these third parties will not increase the cost or level of difficulty in maintaining integration with their software. Certain of these agreements are currently in a wind-down period and while we continue to negotiate with these providers, there is no guarantee that we will be able to enter into a new agreement once the wind-down period ends. Additionally, we integrate certain of our solutions and services with other third parties' software programs. These third parties may design or utilize their software in a manner that makes it more difficult for us to continue to integrate our solutions and services in the same manner, or at all. These developments could have a material adverse effect on our business, prospects, financial condition and results of operations.

Our systems and network may be subject to security breaches, interruptions, failures and/or other errors or may be harmed by other events beyond our control.

Our systems may be subject to security breaches.

Our success depends on the confidence of dealers, lenders, the major credit reporting agencies and our other network participants in our ability to transmit confidential information securely over the Internet and operate our computer systems and operations without significant disruption or failure. We transmit substantial amounts of confidential information, including non-public personal information, over the Internet. Moreover, even if our security measures are adequate, concerns over the security of transactions conducted on the Internet and commercial online services, which may be heightened by any well-publicized compromise of security, may deter customers from using our products and services. If our security measures are breached and unauthorized access is obtained to confidential information, our network may be perceived as not being secure and our customers may curtail or stop using our network or other systems. Any failure by, or lack of confidence in, our secure online products and services could have a material adverse effect on our business, prospects, financial condition and results of operations.

Despite our focus on Internet security, we may not be able to stop unauthorized attempts to gain access to or disrupt the transmission of communications among our network participants. Advances in computer capabilities, new discoveries in the field of cryptography, or other events or developments could result in a compromise or breach of the algorithms used by our products and services to protect certain data contained in our databases and the information being transferred.

Although we generally limit warranties and liabilities relating to security in our customer contracts, third parties may seek to hold us liable for any losses suffered as a result of unauthorized access to their confidential information or non-public personal information. We may not have limited our warranties and liabilities sufficiently or have adequate insurance to cover these losses. We may be required to expend significant capital and other resources to protect against security breaches or to alleviate the problems caused. Our security measures may not be sufficient to prevent security breaches, and failure to prevent security breaches could have a material adverse effect on our business, prospects, financial condition and results of operations.

Our network may be vulnerable to interruptions or failures.

From time to time, we have experienced, and may experience in the future, network slowdowns and interruptions. These network slowdowns and interruptions may interfere with our ability to do business. Although we regularly back up data and take other measures to protect against data loss and system failures, there is still risk that we may lose critical data or experience network failures. Such failures or disruptions may result in lost revenue opportunities for our customers, which could result in litigation against us or a loss of customers. This could have a material adverse effect on our business, prospects, financial condition and results of operations.

Undetected errors in our software may harm our operations.

Our software may contain undetected errors, defects or bugs. Although we have not suffered significant harm from any errors, defects or bugs to date, we may discover significant errors, defects or bugs in the future that we may not be able to correct or correct in a timely manner. Our products and services are integrated with products and systems developed by third parties. Complex third-party software programs may contain undetected errors, defects or bugs when they are first introduced or as new versions are released. It is possible that errors, defects or bugs will be found in our existing or future products and services or third-party products upon which our products and services are dependent, with the possible results of delays in, or loss of market acceptance of, our products and services, diversion of our resources, injury to our reputation, increased service and warranty expenses and payment of damages.

Our systems may be harmed by events beyond our control.

Our computer systems and operations are vulnerable to damage or interruption from natural disasters, such as fires, floods and hurricanes, power outages, telecommunications failures, terrorist attacks, network service outages and disruptions, “denial of service” attacks, computer viruses, break-ins, sabotage and other similar events beyond our control. The occurrence of a natural disaster or unanticipated problems at our facilities in the New York metropolitan area or at any third-party facility we utilize, such as our disaster recovery center in Waltham, Massachusetts, could cause interruptions or delays in our business, loss of data or could render us unable to provide our products and services. In addition, the failure of a third-party facility to provide the data communications capacity required by us, as a result of human error, bankruptcy, natural disaster or other operational disruption, could cause interruptions to our computer systems and operations. The occurrence of any or all of these events could have a material adverse effect on our business, prospects, financial condition and results of operations.

Our failure or inability to execute any element of our business strategy could adversely affect our operations.

Our business, prospects, financial condition and results of operations depend on our ability to execute our business strategy, which includes the following key elements:

- expanding our customer base;
- selling additional products and services to our existing customers;
- expanding our offerings; and

- pursuing acquisitions and strategic alliances.

We may not succeed in implementing a portion or all of our business strategy and, even if we do succeed, our strategy may not have the favorable impact on operations that we anticipate. Our success depends on our ability to leverage our distribution channel and value proposition for dealers, lenders and other service and information providers, offer a broad array of solutions, provide convenient, high-quality products and services, maintain our technological position and implement other elements of our business strategy.

We may not be able to effectively manage the expansion of our operations or achieve the rapid execution necessary to fully avail ourselves of the market opportunity for our products and services. If we are unable to adequately implement our business strategy, our business, prospects, financial condition and results of operations could be materially adversely affected.

Our revenue, operating results and profitability will vary from quarter to quarter, which may result in volatility in our stock price.

Our revenue, operating results and profitability have varied in the past and are likely to continue to vary significantly from quarter to quarter. This may lead to volatility in our stock price. These variations are due to several factors related to the number of transactions we process and to the number of subscriptions to our products and services, including:

- the volume of new and used automobiles financed or leased by our participating lender customers;
- the timing, size and nature of our subscriptions and any cancellations thereof;
- automobile manufacturers or their captive lenders offering special incentive programs such as discount pricing or low cost financing;
- the timing of acquisitions or divestitures of businesses, products and services;
- unpredictable sales cycles;
- product and price competition regarding our products and services and those of our participating lenders;
- changes in our operating expenses;
- the seasonality of car sales;
- the timing of introduction and market acceptance of new products, services or product enhancements by us or our competitors;
- foreign currency fluctuations;
- personnel changes; and
- fluctuations in economic and financial market conditions.

As a result of these fluctuations, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful. We cannot assure you that future revenue and results of operations will not vary substantially from quarter to quarter. It is also possible that in future quarters, our results of operations will be below the expectations of equity research analysts, investors or our announced guidance. In any of these cases, the price of our stock could be materially adversely affected.

We may be unable to develop and bring products and services in development and new products and services to market in a timely manner.

Our success depends in part upon our ability to bring to market the products and services that we have in development and offer new products and services that meet changing customer needs. The time, expense and effort associated with developing and offering these new products and services may be greater than anticipated. The length of the development cycle varies depending on the nature and complexity of the product, the availability of development, product management and other internal resources, and the role, if any, of strategic partners. If we are unable to develop and bring additional products and services to market in a timely manner, we could lose market share to competitors who are able to offer these additional products and services, which could also materially adversely affect our business, prospects, financial condition and results of operations.

We are subject, directly and indirectly, to extensive and complex federal and state regulation and new regulations and/or changes to existing regulations may adversely affect our business.

The indirect automotive financing and automotive retail industries are subject to extensive and complex federal and state regulation.

We are directly and indirectly subject to various laws and regulations. Federal laws and regulations governing privacy and security of consumer information generally apply in the context of our business to our clients and to us as a service provider that certain regulations obligate our clients to monitor. These include the Gramm-Leach-Bliley Act (“GLB Act”) and regulations implementing its information safeguarding requirements, the Interagency Guidelines Establishing Information Security Standards, the Interagency Guidance on Response Programs for Unauthorized Access to Customer Information and Customer Notice, the Junk Fax Prevention Act of 2005, the CAN-SPAM Act of 2003, and the Federal Trade Commission’s Privacy Rule, Safeguards Rule, Consumer Report Information Disposal Rule, and “Red Flags Rule,” as well as the Fair Credit Reporting Act (“FCRA”). If we, or a lender or dealer discloses or uses consumer information provided through our system in violation of these or other laws, or engage in other prohibited conduct, we may be subject to claims or enforcement actions by state or federal regulators. We cannot predict whether such claims or enforcement actions will arise or the extent to which, if at all, we may be held liable. Such claims or enforcement actions could have a material adverse effect on our business prospects, financial condition and results of operations.

A majority of states have passed, or are currently contemplating, consumer protection, privacy, and data security laws or regulations that may relate to our business. The FCRA contains certain provisions that explicitly preempt some state laws to the extent the state laws seek to regulate certain specified areas, including the responsibilities of persons furnishing information to consumer reporting agencies. Unlike the FCRA, however, the GLB Act does not limit the ability of the states to enact privacy legislation that provides greater protections to consumers than those provided by the GLB Act. Some state legislatures or regulatory agencies have imposed, and others may impose, greater restrictions on the disclosure of consumer information than are already contained in the GLB Act and its implementing regulations, the Interagency Guidelines or the FTC’s rules. Any such legislation or regulation could adversely impact our ability to provide our customers with the products and services they require and that are necessary to make our products and services attractive to them.

In 2009, the Obama Administration supported the establishment of a federal Consumer Financial Protection Agency (“CFPA”) as part of its financial regulatory reform package. As proposed, the CFPA could have jurisdictional authority over the Company as a service provider for regulated financial institutions. At present, the CFPA has been passed by the U.S. House of Representatives but not the U.S. Senate.

If a federal or state government or agency imposes additional legislative and/or regulatory requirements on us or our customers, or prohibits or limits our activities as currently conducted, we may be required to modify or terminate our products and services in that jurisdiction in a manner which could undermine our attractiveness or availability to dealers and/or lenders doing business in that jurisdiction.

The use of our electronic contracting product by lenders is governed by relatively new laws.

In the United States, the enforceability of electronic transactions is primarily governed by the Electronic Signatures in Global and National Commerce Act, a federal law enacted in 2000 that largely preempts inconsistent state law, and the Uniform Electronic Transactions Act, a uniform state law that was finalized by the National Conference of Commissioners on Uniform State Laws in 1999 and has now been adopted by every state. Case law has generally upheld the use of electronic signatures in commercial transactions and in consumer transactions where proper notice is provided and consumer consent to conducting business electronically is obtained. UCC 9-105 provides requirements to perfect security interests in electronic chattel paper. These laws impact the degree to which the lenders in our network use our electronic contracting product. We believe that our electronic contracting product enables the perfection of a security interest in electronic chattel paper by meeting the transfer of “control” requirements of UCC 9-105. Certain of our financial institution clients have received third-party legal opinions to that effect. However, this issue has not been challenged in any legal proceeding. If a court were to find that our electronic contracting product is not sufficient to perfect a security interest in electronic chattel paper, or if existing laws were to change, our business, prospects, financial condition and results of operations could be materially adversely affected. Federal and state regulatory requirements imposed on our lender customers, such as the SEC’s Regulation AB relating to servicers of asset backed securities, may also result in our incurring additional expenses to facilitate lender compliance regarding the use of our electronic contracting product.

New legislation or changes in existing legislation may adversely affect our business.

Our ability to conduct, and our cost of conducting, business may be adversely affected by a number of legislative and regulatory proposals concerning aspects of the Internet, which are currently under consideration by federal, state, local and foreign governments and various courts. These proposals include, but are not limited to, the following matters: on-line content, user privacy, taxation, access charges, and so-called “net-neutrality” liability of third-party activities and jurisdiction. Moreover, we do not know how existing laws relating to these or other issues will be applied to the Internet. The adoption of new laws or the application of existing laws could decrease the growth in the use of the Internet, which could in turn decrease the demand for our products and services, increase our cost of doing business or otherwise have a material adverse effect on our business, prospects, financial condition and results of operations. Furthermore, government restrictions on Internet content or anti-“net neutrality” legislation could slow the growth of Internet use and decrease acceptance of the Internet as a communications and commercial medium and thereby have a material adverse effect on our business, prospects, financial condition and results of operations.

We utilize certain key technologies from, and integrate our network with, third parties and may be unable to replace those technologies if they become obsolete, unavailable or incompatible with our products or services.

Our proprietary software is designed to work in conjunction with certain software and hardware from third-party vendors, including Microsoft, IBM, Oracle and eOriginal. Any significant interruption in the supply of such third-party software or hardware could have a material adverse effect on our ability to offer our products unless and until we can replace the functionality provided by these products and services. In addition, we are dependent upon these third parties' ability to enhance their current products, develop new products on a timely and cost-effective basis and respond to emerging industry standards and other technological changes. There can be no assurance that we would be able to replace the functionality provided by the third-party software currently incorporated into our products or services in the event that such technologies becomes obsolete or incompatible with future versions of our products or services or is otherwise not adequately maintained or updated. Any delay in or inability to replace any such functionality could have a material adverse effect on our business, prospects, financial condition and results of operations. Furthermore, delays in the release of new and upgraded versions of third-party software products could have a material adverse effect on our business, prospects, financial condition and results of operations.

Our business operations may be disrupted if our planned Enterprise Resource Planning system (ERP) implementation is not successful

We are contemplating the conversion of our various business information systems to a single ERP. We plan to commit significant resources to this conversion and it is expected to be phased in over multiple years. The conversion process is extremely complex, in part, because of the wide range of processes and the multiple legacy systems that must be integrated. We will be using a controlled project plan that we believe will provide an adequate allocation of resources. However, such a plan, or a divergence from it, may result in cost overruns, project delays, or business interruptions. During the conversion process, we may be limited in our ability to integrate any business that we may want to acquire. Failure to properly or adequately address these issues could result in significant costs or impact our ability to perform necessary business operations which could have a material adverse effect on our business, prospects, financial condition and results of operations.

We may be unable to adequately protect, and we may incur significant costs in defending, our intellectual property and other proprietary rights.

Our success depends, in large part, on our ability to protect our intellectual property and other proprietary rights. We rely upon a combination of trademark, trade secret, copyright, patent and unfair competition laws, as well as license agreements and other contractual provisions, to protect our intellectual property and other proprietary rights. In addition, we attempt to protect our intellectual property and proprietary information by requiring certain of our employees and consultants to enter into confidentiality, non-competition and assignment of inventions agreements. To the extent that our intellectual property and other proprietary rights are not adequately protected, third parties might gain access to our proprietary information, develop and market products and services similar to ours, or use trademarks similar to ours. Existing U.S. federal and state intellectual property laws offer only limited protection. Moreover, the laws of Canada, and any other foreign countries in which we may market our products and services in the future, may afford little or no effective protection of our intellectual property. If we resort to legal proceedings to enforce our intellectual property rights or to determine the validity and scope of the intellectual property or other proprietary rights of others, the proceedings could be burdensome and expensive, and we may not prevail. The failure to adequately protect our intellectual property and other proprietary rights, or manage costs associated with enforcing those rights, could have a material adverse effect on our business, prospects, financial condition and results of operations.

We own the Internet domain names "dealertrack.com," "alg.com," "chrome.com," "dealeraccess.com" and certain other domain names. The regulation of domain names in the United States and foreign countries may change. Regulatory bodies could establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names, any or all of which may dilute the strength of our domain names. We may not acquire or maintain our domain names in all of the countries in which our websites may be accessed or for any or all of the top-level domain names that may be introduced. The relationship between regulations governing domain names and laws protecting intellectual property rights is unclear. Therefore, we may not be able to prevent third parties from acquiring domain names that infringe or otherwise decrease the value of our trademarks and other intellectual property rights.

A license agreement we have with a lender customer restricts our ability to utilize the technology licensed under this agreement beyond the automotive finance industry.

An affiliate of JPMorgan claims certain proprietary rights with respect to certain technology developed as of February 1, 2001. We have an exclusive, perpetual, irrevocable, royalty-free license throughout the world to use this technology in connection with the sale, leasing and financing of automobiles only, and the right to market, distribute and sub-license this technology solely to automotive dealerships, consumers and lenders in connection with the sale, leasing and financing of automobiles only. The license agreement defines "automobile" as a passenger vehicle or light truck, snowmobiles, recreational vehicles, motorcycles, boats and other watercraft and commercial vehicles and excludes manufactured homes. We may be limited in our ability to utilize the licensed technology beyond the automotive finance industry.

Claims that we or our technologies infringe upon the intellectual property or other proprietary rights of a third party may require us to incur significant costs, enter into royalty or licensing agreements or develop or license substitute technology.

We may in the future be subject to claims that our technologies in our products and services infringe upon the intellectual property or other proprietary rights of a third party. In addition, the vendors providing us with technology that we use in our own technology could become subject to similar infringement claims. Although we believe that our products and services do not infringe any intellectual property or other proprietary rights, we cannot assure you that our products and services do not, or that they will not in the future, infringe intellectual property or other proprietary rights held by others. Any claims of infringement could cause us to incur substantial costs defending against the claim, even if the claim is without merit, and could distract our management from our business. Moreover, any settlement or adverse judgment resulting from the claim could require us to pay substantial amounts, or obtain a license to continue to use the products and services that is the subject of the claim, and/or otherwise restrict or prohibit our use of the technology. There can be no assurance that we would be able to obtain a license on commercially reasonable terms from the third party asserting any particular claim, if at all, that we would be able to successfully develop alternative technology on a timely basis, if at all, or that we would be able to obtain a license from another provider of suitable alternative technology to permit us to continue offering, and our customers to continue using, the products and services. In addition, we generally provide in our customer agreements for certain products and services that we will indemnify our customers against third-party infringement claims relating to technology we provide to those customers, which could obligate us to pay damages if the products and services were found to be infringing. Infringement claims asserted against us, our vendors or our customers may have a material adverse effect on our business, prospects, financial condition and results of operations.

We could be sued for contract or product liability claims, and such lawsuits may disrupt our business, divert management's attention or have an adverse effect on our financial results.

We provide guarantees to subscribers of certain of our products and services that the data they receive through these products and services will be accurate. Additionally, general errors, defects or other performance problems in our products and services could result in financial or other damages to our customers or consumers. There can be no assurance that any limitations of liability set forth in our contracts would be enforceable or would otherwise protect us from liability for damages. We maintain general liability insurance coverage, including coverage for errors and omissions in excess of the applicable deductible amount. There can be no assurance that this coverage will continue to be available on acceptable terms or in sufficient amounts to cover one or more large claims, or that the insurer will not deny coverage for any future claim. The successful assertion of one or more large claims against us that exceeds available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, prospects, financial condition and results of operations. Furthermore, litigation, regardless of its outcome, could result in substantial cost to us and divert management's attention from our operations. Any contract liability claim or litigation against us could, therefore, have a material adverse effect on our business, prospects, financial condition and results of operations. In addition, some of our products and services are business-critical for our dealer and lender customers and a failure or inability to meet a customer's expectations could seriously damage our reputation and affect our ability to retain existing business or attract new business.

We have made strategic acquisitions in the past and intend to do so in the future. If we are unable to find suitable acquisitions or partners or to achieve expected benefits from such acquisitions or partnerships, there could be a material adverse effect on our business, prospects, financial condition and results of operations.

Since 2001, we have acquired numerous businesses, including, most recently, our acquisition of certain assets from JM Dealer Services, Inc., including AAX, in January 2009. As part of our ongoing business strategy to expand product offerings and acquire new technology, we frequently engage in discussions with third parties regarding, and enter into agreements relating to, possible acquisitions, strategic alliances and joint ventures. There may be significant competition for acquisition targets in our industry, or we may not be able to identify suitable acquisition candidates or negotiate attractive terms for acquisitions. If we are unable to identify future acquisition opportunities, reach agreement with such third parties or obtain the financing necessary to make such acquisitions, we could lose market share to competitors who are able to make such acquisitions, which could have a material adverse effect on our business, prospects, financial condition and results of operations.

Even if we are able to complete acquisitions or enter into alliances and joint ventures that we believe will be successful, such transactions are inherently risky. Significant risks to these transactions include the following:

- integration and restructuring costs, both one-time and ongoing;
- maintaining sufficient controls, policies and procedures;
- diversion of management's attention from ongoing business operations;
- establishing new informational, operational and financial systems to meet the needs of our business;
- losing key employees, customers and vendors;
- failing to achieve anticipated synergies, including with respect to complementary products or services; and
- unanticipated and unknown liabilities.

If we are not successful in completing acquisitions in the future, we may be required to reevaluate our acquisition strategy. We also may incur substantial expenses and devote significant management time and resources in seeking to complete acquisitions. In addition, we could use substantial portions of our available cash to pay all or a portion of the purchase prices of future acquisitions. If we do not achieve the anticipated benefits of our acquisitions as rapidly to the extent anticipated by our management and financial or industry analysts, and others may not perceive the same benefits of the acquisition as we do. If these risks materialize, our stock price could be materially adversely affected.

Any acquisitions that we complete may dilute your ownership interest in us, may have adverse effects on our business, prospects, financial condition and results of operations and may cause unanticipated liabilities.

Future acquisitions may involve the issuance of our equity securities as payment, in part or in full, for the businesses or assets acquired. Any future issuances of equity securities would dilute our existing stockholders' ownership interests. Future acquisitions may also decrease our earnings or earnings per share and the benefits derived by us from an acquisition might not outweigh or might not exceed the dilutive effect of the acquisition. We also may incur additional indebtedness, have future impairment of assets, or suffer adverse tax and accounting consequences in connection with any future acquisitions.

We may not successfully integrate recent or future acquisitions.

The integration of acquisitions involves a number of risks and presents financial, managerial and operational challenges. We may have difficulty, and may incur unanticipated expenses related to, integrating management and personnel from these acquired entities with our management and personnel. Failure to successfully integrate recent acquisitions or future acquisitions could have a material adverse effect on our business, prospects, financial condition and results of operations.

We are dependent on our key management, direct sales force and technical personnel for continued success.

Our company has grown significantly in size and scope in recent years, and our management remains concentrated in a small number of key employees. Our future success depends to a meaningful extent on our executive officers and other key employees, including members of our direct sales force and technology staff, such as our software developers and other senior technical personnel. We rely primarily on our direct sales force to sell subscription products and services to automotive dealers. We may need to hire additional sales, customer service, integration and training personnel in the near-term and beyond if we are to achieve revenue growth in the future. The loss of the services of any of these individuals or group of individuals could have a material adverse effect on our business, prospects, financial condition and results of operations.

Competition for qualified personnel in the technology industry is intense and we compete for these personnel with other technology companies that have greater financial and other resources than we do. Our future success will depend in large part on our ability to attract, retain and motivate highly qualified personnel, and there can be no assurance that we will be able to do so. Any difficulty in hiring or retaining needed personnel, or increased costs related thereto could have a material adverse effect on our business, prospects, financial condition and results of operations.

We may need additional capital in the future, which may not be available to us, and if we raise additional capital, it may dilute our stockholders' ownership in us.

We may need to raise additional funds through public or private debt or equity financings in order to meet various objectives, such as:

- acquiring businesses, customer, technologies, products and services;
- taking advantage of growth opportunities, including more rapid expansion;
- making capital improvements to increase our capacity;
- developing new services or products; and
- responding to competitive pressures.

Any debt incurred by us could impair our ability to obtain additional financing for working capital, capital expenditures or further acquisitions. Covenants governing any debt we incur would likely restrict our ability to take specific actions, including our ability to pay dividends or distributions on, or redeem or repurchase our capital stock, enter into transactions with affiliates, merge, consolidate or sell our assets or make capital expenditure investments. In addition, the use of a substantial portion of the cash generated by our operations to cover debt service obligations and any security interests we grant on our assets could limit our financial and business flexibility.

Any additional capital raised through the sale of equity, or convertible debt securities may dilute our stockholders' respective ownership percentages in us. Furthermore, any additional debt or equity financing we may need may not be available on terms favorable to us, or at all. If future financing is not available or is not available on acceptable terms, we may not be able to raise additional capital, which could significantly limit our ability to implement our business plan. In addition, we may issue securities, including debt securities that may have rights, preferences and privileges senior to our common stock.

Our lender customers may elect to use competing third-party services, either in addition to or instead of our network.

Our lender customers continue to receive credit applications and purchase retail installment sales and lease contracts directly from their dealer customers through traditional indirect financing methods, including via facsimile and other electronic means of communication, in addition to using our network. Many of our lender customers are involved in other ventures as participants and/or as equity holders, and such ventures or newly created ventures may compete with us and our network now and in the future. Continued use of alternative methods to ours by these lender customers may have a material adverse effect on our business, prospects, financial condition and results of operations.

Some provisions in our certificate of incorporation and by-laws may deter third parties from acquiring us.

Our fifth amended and restated certificate of incorporation and our amended and restated by-laws contain provisions that may make the acquisition of our company more difficult without the approval of our board of directors, including, but not limited to, the following:

- our board of directors is classified into three classes, each of which serves for a staggered three-year term;
- only our board of directors may call special meetings of our stockholders;
- we have authorized undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval;
- our stockholders have only limited rights to amend our by-laws; and
- we require advance notice for stockholder proposals.

These anti-takeover defenses could discourage, delay or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and cause us to take other corporate actions you desire. In addition, because our board of directors is responsible for appointing the members of our management team, these provisions could in turn affect any attempt by our stockholders to replace current members of our management team.

In addition, we are subject to Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, prohibits "business combinations" between a publicly-held Delaware corporation and an "interested stockholder," which is generally defined as a stockholder who becomes a beneficial owner of 15% or more of a Delaware corporation's voting stock, for a three-year period following the date that such stockholder became an interested stockholder. Section 203 could have the effect of delaying, deferring or preventing a change in control of our company that our stockholders might consider to be in their best interests.

If our intangible assets, such as trademarks and goodwill, become impaired we may be required to record a significant non-cash charge to earnings which would negatively impact our results of operations.

Under accounting principles generally accepted in the United States, we review our intangible assets, including our trademarks licenses and goodwill, for impairment annually in the fourth quarter of each fiscal year, or more frequently if events or changes in circumstances indicate the carrying value of our intangible assets may not be fully recoverable. The carrying value of our intangible assets may not be recoverable due to factors such as a decline in our stock price and market capitalization, reduced estimates of future cash flows, including those associated with the specific brands to which intangibles relate, or slower growth rates in our industry. Estimates of future cash flows are based on a long-term financial outlook of our operations and the specific brands to which the intangible assets relate. However, actual performance in the near-term or long-term could be materially different from these forecasts, which could impact future estimates and the recorded value of the intangibles. For example, a significant, sustained decline in our stock price and market capitalization may result in impairment of certain of our intangible assets, including goodwill, and a significant charge to earnings in our financial statements during the period in which an impairment is determined to exist. For ten days between October 24, 2008 and November 21, 2008, the day of January 21, 2009 and for six trading days between March 3, 2009 and March 10, 2009, our market capitalization dropped below the carrying value of our consolidated net assets. Despite the fact that our market capitalization was 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 .However, due to the ongoing uncertainty in market conditions, which may continue to negatively impact our market capitalization, we will continue to monitor and evaluate the carrying value of our goodwill. In the event we had to reduce the carrying value of our goodwill, any such impairment charge could materially reduce our results of operations.

The price of our common stock may be volatile, particularly given the economic downturn and volatility in domestic and international stock markets.

The trading price of our common stock may fluctuate substantially. Factors that could cause fluctuations in the trading price of our common stock include, but are not limited to:

- price and volume fluctuations in the overall stock market from time to time;
- actual or anticipated changes in our earnings or fluctuations in our operating results or in the expectations of equity research analysts;
- trends in the automotive and automotive finance industries;
- catastrophic events;

- fluctuations in the credit markets, including the pricing and availability of credit;
- loss of one or more significant customers or strategic alliances;
- significant acquisitions, strategic alliances, joint ventures or capital commitments by us or our competitors;
- legal or regulatory matters, including legal decisions affecting the indirect automotive finance industry or involving the enforceability or order of priority of security interests of electronic chattel paper affecting our electronic contracting product; and
- additions or departures of key employees.

The stock market in general, the NASDAQ Global Market, and the market for technology companies in particular, have experienced extreme price and volume fluctuations. These fluctuations have often been unrelated or disproportionate to operating performance. These forces reached unprecedented levels in the second half of 2008 through the first quarter of 2009, resulting in the bankruptcy or acquisition of, or government assistance to, several major domestic and international financial institutions and a material decline in economic conditions. In particular, the U.S. equity markets experienced significant price and volume fluctuations that have affected the market prices of equity securities of many technology companies. These broad market and industry factors could materially and adversely affect the market price of our stock, regardless of our actual operating performance.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. Due to the potential volatility of our stock price, we may therefore be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters are located in Lake Success, New York, where we lease approximately 75,000 square feet of office space. Our principal offices are located in Santa Barbara, California; Portland, Oregon; Wilmington, Ohio; Mississauga, Ontario; Dallas, Texas; Memphis, Tennessee; and South Jordan, Utah. We lease all of the office space for our principle offices.

We believe our existing facilities are adequate to meet our current requirements.

Item 3. 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. 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 U.S. Patent No. 5,878,403 (the ’403 Patent) Patent and the 6,587,841 (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 the ’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 LLC (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 substantially 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 July 8, 2009, the court held Claims 1-4 of DealerTrack's patent 7,181,427 was invalid for failure to comply with a standard required by the recently decided case in the Court of Appeals of the Federal Circuit of In re Bilski. On August 11, 2009, the court entered into a judgment granting summary judgment. On September 8 , 2009, DealerTrack filed a notice of appeal in the United States Court of Appeals for the Federal Circuit in regards to the finding of non-infringement of patent 6,587,841, the invalidity of patent 7,181,427, and the claim construction order to the extent that it was relied upon to find the judgments of non-infringement and invalidity. On October 29, 2009, the Federal Circuit granted a motion to stay briefing until the disposition of In re Bilski.

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.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of our security holders during the fourth quarter of the year covered by this Annual Report on Form 10-K.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

As of January 31, 2010, there were 28 holders of record of our common stock. Our common stock is listed and traded on the NASDAQ Global Market under the symbol "TRAK". The following table sets forth the range of high and low sales prices for the common stock in each quarter of 2009 and 2008, as reported by the NASDAQ Global Market.

	High	Low
Year Ended December 31, 2009		
Fourth Quarter	$ 19.69	$ 15.86
Third Quarter	$ 21.80	$ 14.94
Second Quarter	$ 17.94	$ 12.71
First Quarter	$ 14.50	$ 9.27
Year Ended December 31, 2008		
Fourth Quarter	$ 16.79	$ 8.84
Third Quarter	$ 20.82	$ 13.66
Second Quarter	$ 22.72	$ 14.08
First Quarter	$ 34.07	$ 15.22

Dividend Policy

We have not paid any cash dividends on our common stock and currently intend to retain any future earnings for use in our business.

Repurchases

From time to time, in connection with the vesting of restricted common stock under our incentive award plans, we may receive shares of our common stock from certain restricted common stockholders in consideration of the tax withholdings due upon the vesting of restricted common stock.

The following table sets forth the repurchases for the three months ended December 31, 2009:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares That May Yet be Purchased Under the Program
October 2009	1,295	$ 19.06	n/a	n/a
November 2009	129	$ 18.01	n/a	n/a
December 2009	—	$ —	n/a	n/a

Item 6. Selected Consolidated Financial Data

The selected consolidated financial data as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009 have been derived from our consolidated financial statements and related notes thereto included elsewhere herein, which have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. The selected historical consolidated financial data as of December 31, 2007, 2006 and December 31, 2005 and for each of the two years in the period ended December 31, 2006 have been derived from our audited consolidated financial statements and related notes thereto, which are not included in this filing, and which have also been audited by PricewaterhouseCoopers LLP.

We completed acquisitions during the periods presented below, the operating results of which have been included in our historical results of operations from the respective acquisition dates. These acquisitions have significantly affected our revenue, results of operations and financial condition. Accordingly, the results of operations for the periods presented may not be comparable due to these acquisitions.

The following selected consolidated financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 in this Annual Report on Form 10-K and “Financial Statements and Supplementary Data” in Part II, Item 8 in this Annual Report on Form 10-K.”

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(In thousands, except per share and share amounts)				
Consolidated Statements of Operations Data:					
Net revenue	$ 225,626	$ 242,706	$ 233,845	$ 173,272	$ 120,219
(Loss) income from operations	(10,950)	7,052	27,531	20,739	9,831
(Loss) income before benefit (provision) for income taxes	(7,853)	5,697	32,786	26,133	8,528

Net (loss) income	$	(4,334)	$	1,736	$	19,752	$	19,336	$	4,468
Basic net (loss) income per share applicable to common stockholders (1)	$	(0.11)	$	0.04	$	0.49	$	0.53	$	0.17
Diluted net (loss) income per share applicable to common stockholders (1)	$	(0.11)	$	0.04	$	0.47	$	0.51	$	0.13
Weighted average common stock outstanding (basic)		39,524,544		40,461,896		39,351,138		36,064,796		2,290,439
Weighted average common stock outstanding (diluted)		39,524,544		41,538,379		40,886,482		37,500,164		3,123,524

	As of December 31,				
	2009	2008	2007	2006	2005
			(In thousands)		
Consolidated Balance Sheets Data:					
Cash and cash equivalents, short-term and long-term investments	$ 202,964	$ 203,198	$ 220,144	$ 171,195	$ 103,264
Working capital (2)	191,894	197,797	222,810	168,817	101,561
Total assets	472,327	437,215	482,926	321,513	220,615
Capital lease obligations (short and long-term), due to acquirees (short and long-term), deferred revenue (short and long-term) and other long-term liabilities	13,398	17,272	15,888	13,269	13,251
Retained earnings (accumulated deficit)	15,924	20,258	18,522	(1,230)	(20,566)
Total stockholders' equity	420,886	396,220	438,362	284,337	186,671

(1) Earnings per share data for the years ended December 31, 2008, 2007, 2006 and 2005 have been retroactively adjusted to conform to the provisions of ASC Topic 260, Earnings Per Share, which did not have a significant impact on our historical earnings per share calculation. For further information, please refer to Note 2 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K.

(2) Working capital is defined as current assets less current liabilities.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and related notes thereto. In addition, you should read the sections entitled "Cautionary Statements Relating to Forward-Looking Statements" and "Risk Factors" in Part 1, Item 1 and Item 1A, respectively, in this Annual Report on Form 10-K .

Overview

DealerTrack's intuitive and high-value software solutions enhance efficiency and profitability for all major segments of the automotive retail industry, including dealers, lenders, OEMs, agents and aftermarket providers. We believe our solution set for dealers is the industry's most comprehensive. DealerTrack operates the industry's largest online credit application network, connecting approximately 17,000 dealers with over 800 lenders. Our DMS provides dealers with easy-to-use tools with real-time data access that will streamline any automotive business. With our inventory management solution (DealerTrack AAX), dealers get better data along with the tools to make smarter, more profitable inventory decisions. Our sales and F&I solution enables dealers to streamline the entire sales process, quickly structuring all types of deals from a single integrated platform. DealerTrack's compliance solution helps dealers meet legal and regulatory requirements and protect their hard-earned assets. DealerTrack's family of companies also includes data, accessories and consulting services providers, ALG and Chrome.

We are a Delaware corporation formed in August 2001. We are organized as a holding company and conduct a substantial amount of our business through our subsidiaries including Automotive Lease Guide (alg), Inc., Chrome Systems, Inc., DealerTrack Aftermarket Services, Inc., DealerTrack Canada, Inc., DealerTrack Digital Services, Inc., DealerTrack, Inc., and DealerTrack Systems, Inc.

We monitor our performance as a business using a number of measures that are not found in our consolidated financial statements. These measures include the number of active dealers, lenders, and active lender to dealership relationships in the DealerTrack network, the number of subscribing dealers in the DealerTrack network, the number of transactions processed, average transaction price and the average monthly subscription revenue per subscribing dealership. We believe that improvements in these metrics will result in improvements in our financial performance over time. We also view the acquisition and successful integration of acquired companies as important milestones in the growth of our business as these acquired companies bring new products to our customers and expand our technological capabilities. We believe that successful acquisitions will also lead to improvements in our financial performance over time. In the near term, however, the purchase accounting treatment of acquisitions can have a negative impact on our statement of operations as the depreciation and amortization expenses associated with acquired assets, as well as particular intangibles (which tend to have a relatively short useful life), can be substantial in the first several years following an acquisition. As a result, we monitor our EBITDA and other business statistics as a measure of operating performance in addition to net income (loss) and the other measures included in our consolidated financial statements.

The following is a table consisting of non-GAAP financial measures and certain other business statistics that management is continually monitoring (only amounts in thousands, are adjusted EBITDA, adjusted net income, capital expenditure data and transactions processed):

	Year Ended December 31,		
	2009	2008	2007
Non-GAAP Financial Measures and Other Business Statistics:			
Adjusted EBITDA (Non-GAAP) (1)	$ 34,438	$ 47,912	$ 66,257
Adjusted net income (Non-GAAP) (1)	$ 19,967	$ 34,714	$ 44,323
Capital expenditures, software and website development costs	$ 21,336	$ 16,783	$ 15,068
Active dealers in our network as of end of the year (2)	16,690	19,652	22,043
Active lenders in our network as of end of year (3)	823	733	536
Active lender to dealer relationships (4)	118,209	156,437	226,314
Subscribing dealers in our network as of end of the year (5)	13,852	14,342	13,209
Transactions processed (6)	51,402	79,655	90,869
Average transaction price (7)	$ 1.84	$ 1.66	$ 1.62
Average monthly subscription revenue per subscribing dealership (8)	$ 678	$ 550	$ 474

(1) Adjusted EBITDA is a non-GAAP financial measure that represents GAAP net (loss) income before interest (income) expense, taxes, depreciation and amortization, GMAC contra-revenue and may exclude certain items such as: impairment charges, restructuring charges, acquisition-related earn-out compensation expense and professional service fees, or realized gains or (losses) on securities. Adjusted net income is a non-GAAP financial measure that represents GAAP net (loss) income excluding stock-based compensation expense, the amortization of acquired identifiable intangibles, GMAC contra-revenue and may also exclude certain items, such as: impairment charges, restructuring charges, acquisition-related earn-out compensation expense and professional service fees, or realized gains or (losses) on securities. These adjustments to adjusted net income are shown before taxes. We present adjusted EBITDA and adjusted net income because we believe that these non-GAAP financial measures provide useful information with respect to the performance of our fundamental business activities and is also frequently used by securities analysts, investors and other interested parties in the evaluation of comparable companies. We rely on adjusted EBITDA and adjusted net income as a primary measure to review and assess the operating performance of our company and management team in connection with our executive compensation plan incentive payments.

Adjusted EBITDA and adjusted net income have limitations as an analytical tool and you should not consider it in isolation, or as a substitute for analysis of our results as reported under Generally Accepted Accounting Principles (GAAP). Some of these limitations are:

- Adjusted EBITDA and adjusted net income do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA and adjusted net income do not reflect changes in, or cash requirements for, our working capital needs;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and adjusted EBITDA and adjusted net income do not reflect any cash requirements for such replacements;
-

Non-cash compensation is and will remain a key element of our overall long-term incentive compensation package, although we exclude it as an expense when evaluating our ongoing performance for a particular period;

- Adjusted EBITDA and adjusted net income do not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations; and

- Other companies may calculate adjusted EBITDA and adjusted net income differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, adjusted EBITDA and adjusted net income should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our GAAP results and using adjusted EBITDA and adjusted net income only as a supplement to our GAAP results. Adjusted EBITDA and adjusted net income are a measure of our performance that is not required by, or presented in accordance with, GAAP. Adjusted EBITDA and adjusted net income are not a measurement of our financial performance under GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with GAAP or as an alternative to cash flow from operating activities as a measure of our liquidity.

The following table sets forth the reconciliation of adjusted EBITDA, a non-GAAP financial measure, to net (loss) income, our most directly comparable financial measure in accordance with GAAP (in thousands):

	Year Ended December 31,		
	2009	2008	2007
GAAP net (loss) income	$ (4,334)	$ 1,736	$ 19,752
Interest income	(1,081)	(4,720)	(5,606)
Interest expense	221	324	355
(Benefit) provision for income taxes	(3,519)	3,961	13,034
Depreciation of property and equipment and amortization of capitalized software and website costs	14,719	13,295	10,262
Amortization of acquired identifiable intangibles	20,341	26,781	28,217
EBITDA (Non-GAAP)	26,347	41,377	66,014
Restructuring costs	6,686	—	—
Acquisition related professional fees	2,407	579	243
Realized (gain) loss on securities	(1,393)	5,956	—
Reversal of pre-acquisition accrued contingency	(609)	—	—
Acquisition related earn-out compensation expense	1,000	—	—
Adjusted EBITDA (Non-GAAP)	$ 34,438	$ 47,912	$ 66,257

The following table sets forth the reconciliation of adjusted net income, a non-GAAP financial measure, to net (loss) income, our most directly comparable financial measure in accordance with GAAP (in thousands):

	Year Ended December 31,		
	2009	2008	2007
GAAP net (loss) income	$ (4,334)	$ 1,736	$ 19,752
Adjustments:			
Amortization of acquired identifiable intangibles	20,341	26,781	28,217
Restructuring costs (including stock-based compensation)	6,686	—	—
Acquisition related professional fees	2,407	579	243
Realized (gain) loss on securities (non-taxable)	(1,393)	5,956	—
Reversal of pre-acquisition accrued contingency (non-taxable)	(609)	—	—
Acquisition related earn-out compensation expense ($0.4 million deductible for tax purposes)	1,000	—	—
Amended state tax returns – benefits (non-taxable)	(1,070)	—	—
Stock-based compensation (excluding restructuring costs)	13,104	13,991	10,906
Tax impact of adjustments (9)	(16,165)	(14,329)	(14,795)
Adjusted net income (Non-GAAP)	$ 19,967	$ 34,714	$ 44,323

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(2) We consider a dealer to be active as of a date if the dealer completed at least one revenue-generating credit application processing transaction using the DealerTrack network during the most recently ended calendar month.

(3) We consider a lender to be active in our network as of a date if it is accepting credit application data electronically from dealers in the DealerTrack network, including lenders visible to dealers through drop down menus.

(4) Each lender to dealer relationship represents a pair between an active U.S. lender and an active U.S. dealer.

(5) Represents the number of dealerships with a current subscription in the DealerTrack or DealerTrack Canada networks at the end of a given period.

(6) Represents revenue-generating transactions processed in the DealerTrack, DealerTrack Digital Services and DealerTrack Canada networks at the end of a given period.

(7) Represents the average revenue earned per transaction processed in the DealerTrack, DealerTrack Digital Services and DealerTrack Canada networks during a given period.

(8) Represents net subscription revenue divided by average subscribing dealers for a given period in the DealerTrack and DealerTrack Canada networks.

(9) The tax impact of adjustments for the twelve months ended December 31, 2009, are based on a U.S. effective tax rate of 37.8% applied to taxable adjustments other than amortization of acquired identifiable intangibles which is based on a blended effective tax rate of 37.0%. The tax impact of adjustments for the twelve months ended December 31, 2008, are based on a U.S. effective tax rate of 34.8% applied to taxable adjustments other than amortization of acquired identifiable intangibles which is based on a blended effective tax rate of 34.6%. The tax impact of adjustments for the twelve months ended December 31, 2007, are based on a U.S. effective

tax rate of 35.9% applied to taxable adjustments other than amortization of acquired identifiable intangibles which is based on a blended effective tax rate of 38.2%.

Revenue

Transaction Services Revenue. Transaction services revenue consists of revenue earned from our lender customers for each credit application or contract that dealers submit to them. We also earn transaction services revenue from lender 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, accessory providers, and credit report providers, for each fee-bearing product accessed by dealers.

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. Our 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.

Other Revenue. Other revenue consists of revenue primarily earned through forms programming, data conversion and training and start up fees from our DMS solution, shipping commissions earned from our digital contract business and consulting and analytical revenue earned from ALG.

Operating Expenses

Cost of Revenue. Cost of revenue primarily consists of expenses related to running our network infrastructure (including Internet connectivity, hosting expenses, and data storage), amortization expense on acquired intangible assets, capitalized software and website development costs, compensation and related benefits for network and technology development personnel, amounts paid to third parties pursuant to contracts under which a portion of certain revenue is owed to those third parties (revenue share) and direct costs for data licenses and direct costs (printing, binding, and delivery) associated with our residual value guides. Cost of revenue also includes hardware costs associated with our DMS product offering, and compensation, related benefits and travel expenses associated with DMS installation personnel.

Product Development Expenses. Product development expenses consist primarily of compensation and related benefits, consulting fees and other operating expenses associated with our product development departments. The product development departments perform research and development, as well as enhance and maintain existing products.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist primarily of compensation and related benefits, facility costs and professional services fees for our sales, marketing, customer service and administrative functions.

We allocate overhead such as occupancy and telecommunications charges, and depreciation expense based on headcount, as we believe this to be the most accurate measure. As a result, a portion of general overhead expenses is reflected in our cost of revenue and each operating expense category.

We allocated the restructuring costs related to our January 5, 2009 realignment of our workforce and business to the appropriate cost of revenue and operating expense categories based on each of the terminated employees respective functions. For further information, please refer to Note 16 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K.

Acquisitions and Related Amortization Expense

We have grown our business since inception through a combination of organic growth and acquisitions. The operating results of each business acquired have been included in our consolidated financial statements from the respective dates of acquisition.

On January 23, 2009, we acquired the AAX 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 $30.9 million in cash, net of a $1.7 million purchase price adjustment. We expensed approximately $0.5 million of professional fees associated with the acquisition. For further information, please refer to Note 4 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K.

On August 1, 2007, we completed the purchase of all of the outstanding shares of AutoStyleMart, Inc. (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 future contingent payment obligations of up to $11.0 million based upon the achievement of certain operational targets from February 2008 through February 2011. As of December 31, 2009, we determined that certain operational conditions were probable of being achieved and recorded a liability of $1.0 million. The additional consideration of $1.0 million was deemed compensation for services, as payment was contingent on certain former stockholders remaining employees or consultants of DealerTrack for a certain period. The $1.0 million was recorded as a selling, general and administrative expense for the year ended December 31, 2009. As of December 31, 2009, it has been determined that the operational targets related to the remaining $10.0 million in contingent payment obligations are not yet probable of being achieved. Any amounts deemed probable in the future will also be recorded as a selling, general and administrative expense.

On June 6, 2007, we completed the purchase of all of the outstanding shares of Arkona, Inc. (Arkona), for a cash purchase price of approximately $60.0 million (including direct acquisition costs of approximately $1.0 million). Arkona is a provider of on-demand dealer management systems for automotive dealerships.

On February 1, 2007, we completed the purchase of all of the outstanding shares of Curomax Corporation and its subsidiaries (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 merger agreement, we had future contingent payment obligations of up to $1.8 million in cash based upon the achievement of certain operational targets over the subsequent twenty-four months. As of December 31, 2008, we determined that certain operational conditions had been met and as such, recorded a liability and additional goodwill of approximately $1.8 million. The additional consideration of $1.8 million was paid in the first quarter of 2009.

Our acquisitions have been recorded under the purchase method of accounting, pursuant to which the total purchase price, is allocated to the net assets acquired based upon estimates of the fair value of those assets. Any excess purchase price is allocated to goodwill. Amortization expense relating to intangible assets is recorded as a cost of revenue.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of our operations is based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the amounts reported for assets, liabilities, revenue, expenses and the disclosure of contingent liabilities.

Our critical accounting policies are those that we believe are both important to the portrayal of our financial condition and results of operations and that involve difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The estimates are based on historical experience and on various assumptions about the ultimate outcome of future events. Our actual results may differ from these estimates if unforeseen events occur or should the assumptions used in the estimation process differ from actual results.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition

Transaction Services Revenue. Transaction services revenue consists of revenue earned from our lender customers for each credit application or contract that dealers submit to them. We also earn transaction services revenue from lender 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, accessory providers, and credit report providers, for each fee-bearing product accessed by dealers.

We offer our web-based service to lenders for the electronic receipt of credit application data and contract data for automobile 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 lenders 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 credit report provider, as applicable, that include fixed or determinable prices and that do 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. Our 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 start up fees from our DMS solution, 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 are estimated based on historical results, and established in the period in which services are provided.

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 when the provisions are 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.

Software and Website Development Costs and Amortization

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 website development costs are amortized on a straight-line basis over estimated useful lives ranging from two to four years. We perform periodic reviews to ensure that unamortized software and website costs remain recoverable from future revenue. Capitalized software and website development costs, net were $21.2 million and $12.7 million as of December 31, 2009 and 2008, respectively. Amortization expense totaled $7.6 million, $7.4 million and $6.2 million for the years ended December 31, 2009, 2008 and 2007, 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. Goodwill is tested annually for impairment as well as whenever events or circumstances change that would make it more likely than not that an impairment may have occurred. Goodwill is tested for impairment using a two-step approach. The first step tests for potential goodwill impairment by comparing the fair value of our one reporting unit to our carrying. If the fair value of the reporting unit is less than its carrying value the second step is to record an impairment loss to the extent that the implied fair value of the goodwill of the reporting unit is less than its carrying value.

Goodwill is required to be assessed at the operating segment or lower level. 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 perform our annual impairment analysis as of the first day of the fourth quarter. The evaluation of impairment involves comparing the current estimated fair value of our reporting unit to the carrying value, including goodwill. We estimate the fair value of or reporting unit by primarily using a market capitalization approach, and also looking at the outlook for the business. The results of our most recent annual assessments performed on October 1, 2009 and 2008 did not indicate any 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 ten days between October 24, 2008 and November 21, 2008, the day of January 21, 2009 and for six trading days between March 3, 2009 and March 10, 2009, our market capitalization was on average approximately 5% below the approximately $405 million carrying value of our consolidated net assets, as of October 1, 2008. The periods between October 24, 2008 and November 21, 2008 and March 3, 2009 to March 10, 2009 coincided with the overall stock market's low periods for 2008, and 2009, respectively.

Despite the fact that our market capitalization traded below our book value for a brief period of time, we believed that there had not been an impairment anytime during 2009 or 2008, based on the limited duration and depth of the market decline. In addition, there was no factoring of 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. As of December 31, 2008, our market capitalization was approximately $475 million compared to our book value, including goodwill, of approximately $396 million. As of October 1, 2009, our market capitalization was approximately $750 million compared to our book value, including goodwill, of approximately $418 million.

We evaluate our long-lived assets, including property and equipment and finite-lived intangible assets for potential impairment on an individual asset basis or at the lowest level asset grouping for which cash flows can be separately identified. Intangible asset impairments are assessed whenever changes in circumstances could indicate that the carrying amounts of those productive assets exceed their projected undiscounted cash flows. When it is determined that impairment exists, the related asset group is written down to its estimated fair market value. The determination of future cash flows and the estimated fair value of long-lived assets, involve 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.

Our process for assessing potential triggering events may include, but is not limited to, analysis of the following:

§ any sustained decline in the company's stock price below book value;

§ results of our goodwill impairment test;

§ sales and operating trends affecting products and groupings;

§ the impact on current and future operating results related to industry statistics including fluctuation of lending relationships between financing sources and automobile dealers, actual and projected annual vehicle sales, the number of dealers within our network;

§ any losses of key acquired customer relationships; and

§ changes to or obsolescence of acquired technology, data, and trademarks.

We expect to continue to experience challenges due to the ongoing adverse outlook for the credit markets and automobile sales. If events and circumstances were to continue we may be required to write-off some of our goodwill or long-lived intangible assets and we could incur a significant non-cash charge to our income statement.

We also evaluate the remaining useful life of our long-lived assets on a periodic basis to determine whether events or circumstances warrant a revision to the remaining estimated amortization period.

As discussed in Note 6 of our consolidated financial statements included in this Annual Report on Form 10-K, 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.

Business Combinations

In December 2007, the FASB issued principles and standards which retained the previous fundamentals of accounting for business combinations, but revised certain principles, including the definition of a business, the recognition and measurement of assets acquired and liabilities assumed in a business combination, the accounting for goodwill, and financial statement disclosure. We have adopted the revised business combination standards as of January 1, 2009. The recently adopted business combination standards were applied to our 2009 acquisition of AAX. For further information on the AAX acquisition, please refer to Note 4 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K

Income Taxes

We account for income taxes in accordance with the provisions of ASC Topic 740, Accounting for Income Taxes, 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.

The total liability for the uncertain tax positions recorded in our balance sheet in accrued other liabilities as of December 31, 2009 and December 31, 2008, was $0.8 million and $0.5 million, respectively. Interest and penalties, if any, related to tax positions taken in our tax returns are recorded in interest expense and general and administrative expenses, respectively, in our consolidated statement of operations. As of December 31, 2009 and December 31, 2008, we have accrued interest and penalties related to tax positions taken on our tax returns of approximately $47,000 and $28,000, respectively.

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 lender 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 have completed the discovery process and we expect this matter will be heard by the Superior Court in 2010. We have not accrued any related sales tax liability for the period subsequent to May 31, 2003 for these lender 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 lender 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 by our customers, we would be required to pay the obligation, which could range from $5.2 million (CAD) to $5.8 million (CAD), including penalties and interest.

Stock-Based Compensation

We have four types of stock-based compensation programs: stock options, restricted stock units, restricted common stock, and an employee stock purchase plan (ESPP).

The following summarizes stock-based compensation expense recognized for the three years ended December 31, 2009, 2008 and 2007 (in thousands):

	Year Ended December 31,		
	2009	2008	2007
Stock options	$ 10,475	$ 8,331	$ 6,333
Restricted common stock	4,599	5,361	4,260
Restricted stock units	1,855	—	—
ESPP	60	299	313
Total stock-based compensation expense	$ 16,989	$ 13,991	$ 10,906

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Stock-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. 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, expected stock price volatility, and the number of expected options, restricted stock units, or restricted common stock that will be forfeited prior to the completion of the vesting requirements. 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, for the years ended December 31, 2009, 2008 and 2007, the expected volatility and for the year ended December 31, 2009, the expected life of an option grants were determined based on the expected volatility and expected lives of similar entities whose shares are publicly traded, except for the expected volatility and expected life assumptions utilized for awards granted in September 2009 under the Stock Option Exchange Program (SOEP) and the Long-Term Incentive Plan (LTIP). For the years ended December 31, 2008 and 2007, the expected lives of options were determined based on the "simplified" method under the provisions of ASC Topic 718-10, Compensation – Stock Compensation.

For options granted in September 2009 under the SOEP, we began estimating our expected volatility using a time-weighted average of our historical volatility in combination with the historical volatility of similar entities whose common shares are publicly traded. We expect to apply this volatility methodology to future option grants. The expected life under the SOEP was determined by an independent third party by means of Monte-Carlo simulations of future stock price based upon "in-the-money", vesting schedule, contractual term, current life to date and applied an annual termination rate (after vesting) to the outstanding options in the simulation to reflect the probability of exercise behavior. Stock-based compensation expenses related to the SOEP will be amortized over the new vesting schedule of 25% six months from the grant date, 25% twelve months from the grant date and 1/48 each month thereafter.

Awards granted under the LTIP consisted of 455,000 shares of restricted common stock (net of cancellations). Each individual's total award was 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 were to be earned upon our achievement of EBITDA and market-based targets for the fiscal years 2007, 2008 and 2009, but would not vest unless the grantee remains continuously employed in active service until January 31, 2010. If an EBITDA Performance Award or Market Value Award was not earned in an earlier year, it could have been earned upon achievement of that target in a subsequent year. The awards were subject to acceleration in full upon a change in control. 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 was $6.0 million (prior to estimated forfeitures), of which, in 2007, we began expensing 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. The EBITDA target for 2007 was achieved. As of December 31, 2009, no amounts were expensed related to the EBITDA Performance Awards for 2008 and 2009 as the targets were not achieved. The total value of the entire Market Value Award was $2.5 million (including estimated forfeitures), which was expensed on a straight-line basis from the date of grant over the applicable service period. As long as the service condition was satisfied, the expense was not reverseable, even if the market conditions were not satisfied. During the year ended December 31, 2009, 96,667 shares of long-term performance equity awards were cancelled and the vesting of 38,333 shares of long-term performance equity awards were accelerated due to the departure of certain executive officers, most of which were in connection with the realignment of our workforce and business as discussed in Note 16. On January 31, 2010, 151,697 shares of long-term performance equity awards vested relating to the 2007 EBITDA Performance Award and the 2007 Market Value Award and the remaining 303,303 shares of long-term performance equity awards were cancelled as the 2008 and 2009 EBITDA and Market Value targets were not achieved.

Other assumptions required for estimating fair value with Black-Scholes model are the expected risk-free interest rate and the expected dividend yield. The risk-free interests used were the actual U.S. Treasury zero-coupon rates for bonds matching our expected life of an option on the date of grant. The expected dividend yield is not applicable as we have not paid any dividends and current intend to retain any future earnings for use in our business.

Options granted generally (SOEP and LTIP exceptions noted above) 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, except for stock options granted prior to July 11, 2007, which expire ten years from the date of grant 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.

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.

As of December 31, 2009, there was $9.3 million, $5.9 million, and $5.1 million of unamortized stock-based compensation expense related to stock options, restricted common stock units, and restricted common stock awards, respectively. The unamortized stock-based compensation expense related to stock options and restricted common stock units is expected to be recognized on a straight line basis over a weighted average remaining period of 1.8076 years and 3.1215 years, respectively. Of the $5.1 million of unamortized stock-based compensation expense related to restricted common stock awards, $2.1 million is expected to be recognized on a straight-line basis over a weighted average remaining period of 0.5384 years. The remaining $3.0 million of unamortized stock-based compensation expense related to restricted common stock awards relates to the long-term incentive equity awards, of which $0.1 million relates to the Market Value Awards and $2.9 million relates to the EBITDA Performance Awards. Of the $3.0 million of unamortized stock-based compensation expense related to the long-term incentive equity awards, $2.9 million will not be expensed due to the cancellation of 303,303 awards on January 31, 2010.

Fair Value Measurements

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs used to measure fair value are prioritized into a three-level fair value hierarchy. 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 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.

Financial assets measured at fair value on a recurring basis include the following as of December 31, 2009 and 2008 (in thousands):

As of December 31, 2009	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	December 31, 2009
Cash equivalents (1)	$ 127,608	$ —	$ —	$ 127,608
Short-term investments (2)	1,484	—	—	1,484
Long-term investments (3)	—	—	3,971	3,971
Total	$ 129,092	$ —	$ 3,971	$ 133,063

As of December 31, 2008	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	December 31, 2008
Cash equivalents (1)	$ 124,497	$ —	$ —	$ 124,497
Short-term investments (2)(4)	42,490	860	—	43,350
Long-term investments (3)(4)	—	2,842	1,550	4,392
Total	$ 166,987	$ 3,702	$ 1,550	$ 172,239

(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) As of December 31, 2009, Level 1 short-term investments include investments in tax-advantaged preferred securities. As of December 31, 2008, Level 1 short-term investments consisted primarily of corporate bonds and municipal notes with maturity dates of one year or less, for which we determined fair value through quoted market

prices.

(3) Level 3 long-term investments as of December 31, 2009 and 2008 include a $1.6 million, or 0.3% of total assets, auction rate security (ARS) invested in a tax-exempt state government obligation that was valued at par. Our intent is not to hold the ARS invested in tax-exempt state government obligations to maturity, but rather to use the interest reset feature to provide liquidity. However, should the marketplace auctions continue to fail we may hold the security to maturity. We have classified this as long-term due to the maturity date of the security being in 2011, coupled with ongoing failed auctions in the marketplace.

Level 3 long-term investments as of December 31, 2009 also include $2.4 million, or 0.5% of total assets, of tax-advantaged preferred stock of a financial institution. It is uncertain whether we will be able to liquidate these securities within the next twelve months; as such we have classified them as long-term on our consolidated balance sheets. Due to the lack of observable market quotes we utilized valuation models that rely exclusively on Level 3 inputs including those that are based on expected cash flow streams, including assessments of counterparty credit quality, default risk underlying the security, discount rates and overall capital market liquidity.

(4) As of December 31, 2008, Level 2 short-term and long-term investments of $3.7 million (net of impairment charge) consisted of ARS invested in tax-advantaged preferred stock trusts in which the underlying equities are preferred stock. 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. These ARS were associated with failed auctions.

The change in the carrying amount of Level 3 investments for the years ended December 31, 2008 and 2009 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
Reclassification from Level 2 investments to Level 3 investments (5)	1,360
Realized gain on securities included in the statement of operations (5)	716
Unrealized gain on securities recorded in other comprehensive income (5)	345
Balance as of December 31, 2009	$ 3,971

(5) During 2009 our investments in ARS invested in certain tax-advantaged preferred stock trusts held as of December 31, 2008 dissolved and the trustees distributed the underlying preferred stock instruments. As a result of these conversions we measured the fair value of the Level 3 long-term tax-advantaged preferred stock on the distribution date and determined that the value increased from December 31, 2008 and as a result we recorded a realized gain in the statement of operations of $0.7 million from $1.4 million to $2.1 million. Subsequent to the trust dissolution through December 31, 2009 we re-measured the fair value and determined that the value had increased and recorded a gain in other comprehensive income of $0.3 million on the increased fair value. The total value of the tax-advantaged preferred stock of a financial institution included in the $4.0 million of Level 3 long-term investments as of December 31, 2009 is $2.4 million.

We review the fair value of our short-term and long-tem investments for impairment in accordance with ASC Topic 320, Investments – Debt and Equity Securities. 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. For the year end December 31, 2008, we 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.

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. 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 incurred total restructuring costs during the three months ended March 31, 2009 of approximately

$6.7 million, including approximately $3.9 million of net non-cash compensation expense.

The table below sets forth the significant cash components and activity associated with the realignment of workforce and business under the restructuring program for the year ended December 31, 2009 (in thousands):

	Balance as of January 1, 2009	Charges	Cash Payments	Balance as of December 31, 2009
Severance	$ —	$ 2,683	$ 2,683	$ —
Other benefits	—	156	156	—
Total	$ —	$ 2,839	$ 2,839	$ —

Results of Operations

The following table sets forth, for the periods indicated, the selected consolidated statements of operations:

	Year Ended December 31, 2009		2008		2007	
	$ Amount	% of Net Revenue	$ Amount	% of Net Revenue	$ Amount	% of Net Revenue
	(In thousands, except percentages)					
Consolidated Statements of Operations:						
Net revenue	$ 225,626	100.0%	$ 242,706	100.0%	$ 233,845	100.0%
Operating expenses:						
Cost of revenue (1)	113,875	50.5	113,731	46.9	99,631	42.6
Product development (1)	13,994	6.2	11,658	4.8	9,808	4.2
Selling, general and administrative (1)	108,707	48.2	110,265	45.4	96,875	41.4
Total operating expenses	236,576	104.9	235,654	97.1	206,314	88.2
(Loss) income from operations	(10,950)	(4.9)	7,052	2.9	27,531	11.8
Interest income	1,081	0.5	4,720	1.9	5,606	2.4
Interest expense	(221)	(0.1)	(324)	(0.1)	(355)	(0.2)
Other income, net	844	0.4	205	0.1	4	—
Realized gain (loss) on securities	1,393	0.6	(5,956)	(2.4)	—	—
(Loss) income before benefit (provision) for income taxes	(7,853)	(3.5)	5,697	2.4	32,786	14.0
Benefit (provision) for income taxes, net	3,519	1.6	(3,961)	(1.7)	(13,034)	(5.6)
Net (loss) income	$ (4,334)	(1.9)%	$ 1,736	0.7%	$ 19,752	8.4%

(1) Stock-based compensation expense recorded for the years ended December 31, 2009, 2008 and 2007 was classified as follows:

	Year Ended December 31, 2009		2008		2007	
	$ Amount	% of Net Revenue	$ Amount	% of Net Revenue	$ Amount	% of Net Revenue
	(In thousands, except percentages)					
Cost of revenue	$ 2,354	1.0%	$ 2,497	1.0%	$ 2,022	0.9%
Product development	755	0.3	712	0.3	589	0.3
Selling, general and administrative	13,880	6.2	10,782	4.4	8,295	3.5

Years Ended December 31, 2009 and 2008

Revenue

	Year Ended December 31,	
	2009	2008
	(in thousands)	
Transaction services revenue	$ 94,406	$ 132,419
Subscription services revenue	114,931	94,690
Other	16,289	15,597
Total net revenue	$ 225,626	$ 242,706

Total net revenue decreased $17.1 million, or 7%, to $225.6 million for the year ended December 31, 2009 from $242.7 million for the year ended December 31, 2008.

Transaction Services Revenue. Transaction services revenue decreased $38.0 million, or 29%, to $94.4 million for the year ended December 31, 2009 from $132.4 million for the year ended December 31, 2008. The decrease was primarily due to a 35% decline in the volume of transactions processed through the DealerTrack network to 51.4 million for the year ended December 31, 2009 from 79.7 million for the year ended December 31, 2008, which was impacted by the 24% decrease in our number of lender to dealer relationships (LDRs) to 118,209 at December 31, 2009 from 156,437 as of December 31, 2008. The decrease in LDRs is primarily due to lenders continuing to exit the auto financing market, lenders limiting the number of dealers they lend through and dealership closings. The 35% decrease in transaction volume resulted in a $47.0 million reduction in revenue for the year ended December 31, 2009. The tightening of the credit market together with the continual decline in vehicle sales and captive lenders, and in particular captives not on the DealerTrack network, increased market share while independent finance companies and credit unions lost share collectively, has meaningfully impacted our transaction volume compared to historical levels. The revenue decline of $47.0 million related to the decrease in transaction volume was offset by a $9.5 million increase due to an increase in the average transaction price to $1.84 as of December 31, 2009 from $1.66 as of December 31, 2008. A contributing factor to the increase in average transaction price was the 12% increase in lender customers active in our network to 823 as of December 31, 2009 from 733 as of December 31, 2008. The additional 90 lender customers added are generally lower transaction volume customers with higher price per application tiers. Also, with overall lower transaction volumes, our existing lenders were generally in higher transaction price tiers.

Subscription Services Revenue. Subscription services revenue increased $20.2 million, or 21%, to $114.9 million for the year ended December 31, 2009 from $94.7 million for the year ended December 31, 2008. Subscription services revenue growth was due to a 23% increase in the average monthly spend per subscribing dealer to $678 for the year ended December 31, 2009 from $550 for the year ended December 31, 2008. The increase in average monthly spend per subscribing dealer was positively impacted by the acquisition of AAX, the success of our DMS solution, our ability to cross sell existing customers and by the cancellation of a disproportionate number of lower priced subscriptions as dealerships consolidated. These factors contributed $18.0 million to the increase in subscription services revenue, which includes $14.3 million related to acquired customers.

Other Revenue. Other revenue increased $0.7 million, or 4%, to $16.3 million for the year ended December 31, 2009 from $15.6 million for the year ended December 31, 2008. The $0.7 million increase was primarily resulting from an approximately $1.7 million increase in forms programming, data conversion and training revenue from our DMS business, offset by a decrease of $0.4 million in revenue associated with our SCS business which we exited in February 2009, coupled with a decrease in ALG consulting and analytical revenue of $0.5 million.

Operating Expenses

	Year Ended December 31,	
	2009	2008
	(in thousands)	
Cost of revenue	$ 113,875	$ 113,731
Product development	13,994	11,658
Selling, general and administrative	108,707	110,265
Total cost of revenue and operating expenses	$ 236,576	$ 235,654

Cost of Revenue. Cost of revenue increased $0.1 million to $113.8 million for the year ended December 31, 2009 from $113.7 million for the year ended December 31, 2008. The $0.1 million increase was primarily the result of increased compensation and related benefit costs of $2.5 million due to increased bonus and other discretionary compensation, which includes $0.4 million of severance and benefit expense resulting from the realignment of our workforce and business on January 5, 2009 (for further information regarding the realignment of our workforce and business, please refer to Note 16 in the accompanying notes to the consolidated financial statement included in this Annual Report on Form 10-K), increased technology expense of $1.9 million which includes hosting expenses, technology support, and other consulting expenses, $0.6 million in software amortization and depreciation charges, $3.5 million in third party costs related to our Compliance and Inventory Management solutions, $0.9 million in compensation related to an increase in installation headcount and hardware costs associated with our DMS product offering, and $0.4 million in costs due to opening of a second processing facility in Memphis, Tennessee for our eDocs solution, offset by a decrease in amortization of intangible assets of approximately $6.6 million resulting from fully amortized acquired intangibles and an increase in amortization of intangible assets during the year ended December 31, 2008 of approximately $1.9 million related to an impaired application processing contract with DHL where the remaining amortization was accelerated and recorded to cost of revenue (for further information regarding this impairment charge, please refer to Note 6 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K) , a decrease in revenue share of $2.1 million, a decrease in cost of revenue for eContracting of $0.5 million due to a decrease in revenue, and a decrease of $0.3 million in marketing expenses due to continued cost containment efforts.

Product Development Expenses. Product development expenses increased $2.3 million, or 20%, to $14.0 million for the year ended December 31, 2009 from $11.7 million for the year ended December 31, 2008. The $2.3 million increase was primarily a result of increased compensation and related benefit costs of $1.9 million due primarily to increased bonus and other discretionary compensation, including $0.2 million of severance and benefit expense resulting from the realignment of our workforce and business on January 5, 2009.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased $1.6 million, or 1%, to $108.7 million for the year ended December 31, 2009 from $110.3 million for year ended December 31, 2008. The $1.6 million decrease in selling, general and administrative expenses was primarily the result of a decrease in professional fees of $6.6 million related primarily to litigation, a decrease in marketing and travel related expenses of $1.9 million due to continued cost containment efforts, a decrease in general and administrative expenses of $2.8 million primarily due to a decrease in bad debt expense, a decrease in accounting and other professional fees of $1.1 million, and a decrease of $0.6 million in public company costs related primarily to recruiting fees paid in 2008 to search for a new member for the board of directors, reduced compliance costs as a result of hiring internal resources and a decrease in printing related costs, offset by increased compensation and related benefit costs of approximately $3.6 million primarily due to increased bonus and other discretionary compensation, including $2.2 million of severance and benefit expense resulting from the realignment of our workforce and business, $3.1 million in increased stock-based compensation expense related to the realignment of our workforce and business on January 5, 2009, $0.6 million in depreciation expense, $2.2 million of professional fees primarily due to an increase in deal-related costs resulting from the acquisition of AAX and another potential acquisition we decided not to complete, $0.5 million in occupancy due to the AAX acquisition (for further information on the AAX acquisition, please refer to Note 4 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K), $0.8 million in selling and an increase of $1.0 million of contingent earn-out compensation expense relating to AutoStyleMart acquisition (for further information on the AutoStyleMart earn-out, please refer to Note 4 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K).

Interest Income

	Year Ended December 31, 2009	2008
	(in thousands)	
Interest Income	$ 1,081	$ 4,720

Interest income decreased $3.6 million to $1.1 million for the year ended December 31, 2009 from $4.7 million for the year ended December 31, 2008. The $3.6 million decrease is primarily related to the decrease in our weighted average interest rate to approximately 0.69% for the year ended December 31, 2009 from approximately 2.38% for the year ended December 31, 2008.

Other Income, net

	Year Ended December 31, 2009	2008
	(in thousands)	
Other Income, net	$ 844	$ 205

Other income increased $0.6 million to $0.8 million for the year ended December 31, 2009 from $0.2 million for the year ended December 31, 2008. The $0.6 million increase is primarily due to a reversal of an Arkona pre-acquisition sales tax liability. The contingency was resolved subsequent to the close of the purchase accounting allocation period, as such, the $0.6 million was recorded as other income in the 2009 statement of operations. For further information on the Arkona acquisition, please refer to Note 4 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K.

Realized Gain (Loss) on Securities

	Year Ended December 31,	
	2009	2008
	(in thousands)	
Realized gain (loss) on securities	$ 1,393	$ (5,956)

For the year ended December 31, 2009, the realized gain of $1.4 million is primarily due to the sale of a preferred security during the second quarter of 2009.

We measured the fair value of our auction rate securities at each of the quarters in 2008, and determined in the third and fourth quarters of 2008 that the valuation of certain of our auction rate securities had significantly declined from the previously reported amounts. As a result we recognized a $6.0 million impairment charge during the year ended December 31, 2008. For further information regarding this impairment charge, please refer to Note 3 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K.

Benefit (Provision) for Income Taxes, Net

	Year Ended December 31,	
	2009	2008
	(in thousands)	
Benefit (provision) for income taxes, net	$ 3,519	$ (3,961)

The benefit for income taxes for the year ended December 31, 2009 of $3.5 million consisted primarily of $5.5 million of federal income tax benefit and $1.6 million of state income tax benefit, offset by $3.6 million of tax expense for our Canadian subsidiary. Included in our state income tax benefit for the year ended December 31, 2009 is $1.1 million, net of reserves of $0.3 million, for refunds receivable due to the filing of amended tax returns for certain states. This has a 13.6% impact on the effective tax rate for the year ended December 31, 2009. The provision for income taxes for the year ended December 31, 2008 of $4.0 million consisted primarily of $0.7 million of federal tax expense, $0.6 million of state income tax benefit, and $3.9 million of tax expense for our Canadian subsidiary. Included in tax expense for our Canadian subsidiary for the year ended December 31, 2009 and 2008 is $0.7 million and $1.2 million, respectively, for a permanent item relating to intangible amortization. These amounts have an 8.9% and 20.2% impact on the effective tax rate for the year ended December 31, 2009 and 2008, respectively. Our effective tax rate for the year ended December 31, 2009 is 44.8% compared with 69.5% for the year ended December 31, 2008. The primary reason for the variation in tax rates is the impairment loss on auction rate securities recorded during the year ended December 31, 2008. No tax benefit is recorded with respect to the impairment loss recorded on the auction rate securities. If such securities were sold and the losses were realized for tax purposes, the losses on such sales would be capital losses. 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 more likely than not that tax benefits would ultimately be realized from such losses. A full valuation allowance has been booked for the losses. Had it not been for the significant tax rate variation resulting from the impact of the impairment losses, our effective tax rate for the year ended December 31, 2008 would have been 34.0%. The primary reason for the increase in tax rate in 2009 compared to the 2008 rate excluding the impact of the impairment losses is the impact of filing the amended income tax returns offset by the impact of rate changes on deferred taxes, tax return true-ups, effect of foreign repatriation, and a decrease in tax exempt or tax preferred income as a percentage of overall pre-tax income.

In the event that the future income streams that we currently project do not materialize, we may be required to record a valuation allowance. Any increase in a valuation allowance would result in a charge that would adversely impact our operation performance.

Years Ended December 31, 2008 and 2007

Revenue

	Year Ended December 31, 2008	2007
	(in thousands)	
Transaction services revenue	$ 132,419	$ 147,312
Subscription services revenue	94,690	75,061
Other	15,597	11,472
Total net revenue	$ 242,706	$ 233,845

Total net revenue increased $8.9 million, or 4%, to $242.7 million for the year ended December 31, 2008 from $233.8 million for the year ended December 31, 2007.

Transaction Services Revenue. Transaction services revenue decreased $14.9 million, or 10%, to $132.4 million for the year ended December 31, 2008 from $147.3 million for the year ended December 31, 2007. The decrease was primarily due to a 12% decline in the volume of transactions processed through the DealerTrack network to 79.7 million for the year ended December 31, 2008 from 90.9 million for the year ended December 31, 2007, which was impacted by the 31% decrease in our number of LDRs to 156,437 at December 31, 2008 from 226,314 at December 31, 2007. The decrease in LDRs is primarily due to lenders continuing to exit the auto financing market, lenders limiting the number of dealers they lend through and dealership closings. The 12% decrease in transaction volume resulted in an $18.2 million reduction in revenue for the year ended December 31, 2008. The tightening of the credit market together with the continual decline in vehicle sales, has meaningfully impacted our transaction volume compared to historical levels. The revenue decline of $18.2 million related to the decrease in transaction volume was offset by a $3.4 million increase due to the increase in the average transaction price to $1.66 as of December 31, 2008 from $1.62 as of December 31, 2007. A contributing factor to the increase in average transaction price was the 37% increase in lender customers active in our network to 733 as of December 31, 2008 from 536 as of December 31, 2007. The additional 197 lender customers added are generally lower transaction volume customers with higher price per application tiers. Also, with overall lower transaction volumes, our existing lenders were generally in higher transaction price tiers.

Subscription Services Revenue. Subscription services revenue increased $19.6 million, or 26%, to $94.7 million for the year ended December 31, 2008 from $75.1 million for the year ended December 31, 2007. Subscription services revenue growth was due to a 16% increase in the average monthly spend per subscribing dealer to $550 for the year ended December 31, 2008 from $474 for the year ended December 31, 2007. The increase in average monthly spend per subscribing dealer was positively impacted by the success of our DMS solutions, our ability to cross sell existing customers and by the cancellation of a disproportionate number of lower priced subscriptions as dealerships consolidate. These factors contributed $19.5 million to the increase in revenue, which includes $5.1 million related to acquisitions. In addition to the $19.5 million increase in subscription service revenue is an increase of $4.3 million related to Chrome subscription revenue offset by a decrease of $1.4 million in ALG and other subscription revenue.

Other Revenue. Other revenue increased $4.1 million, or 36%, to $15.6 million for the year ended December 31, 2008 from $11.5 million for the year ended December 31, 2007. The $4.1 million increase was primarily resulting from an approximately $5.4 million increase in installation revenue from our DMS business acquired in June 2007, offset by a decrease in other revenue from SCS of $1.3 million.

Operating Expenses

	Year Ended December 31, 2008	2007
	(in thousands)	
Cost of revenue	$ 113,731	$ 99,631
Product development	11,658	9,808
Selling, general and administrative	110,265	96,875
Total cost of revenue and operating expenses	$ 235,654	$ 206,314

Cost of Revenue. Cost of revenue increased $14.1 million, or 14%, to $113.7 million for the year ended December 31, 2008 from $99.6 million for the year ended December 31, 2007. The $14.1 million increase was primarily the result of increased software amortization and depreciation charges of $2.1 million, coupled with increased compensation and related benefit costs of $6.2 million and increased occupancy and telecommunications costs of $0.6 million due to headcount additions and salary increases, $2.4 million in technology expense which includes hosting expenses, technology support, and other consulting expenses, $2.1 million in cost of revenue from our DMS business, $0.5 million in increased stock-based compensation expense due to additional stock options and restricted common stock awards granted since December 31, 2007, an increase in amortization of intangible assets of approximately $1.9 million related to an impaired application processing contract with DHL where the remaining amortization was accelerated and recorded to cost of revenue (for further information regarding this impairment charge, please refer to Note 6 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K), offset by a decrease in amortization of intangible assets of approximately $3.3 million resulting from fully amortized acquired intangibles.

Product Development Expenses. Product development expenses increased $1.9 million, or 19%, to $11.7 million for the year ended December 31, 2008 from $9.8 million for the year ended December 31, 2007. The $1.9 million increase was primarily a result of increased compensation and related benefit costs of $1.4 million and occupancy and telecommunications costs of $0.2 million, both due to overall headcount additions and salary increases, and increased depreciation expense of $0.2 million.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $13.4 million, or 14%, to $110.3 million for the year ended December 31, 2008 from $96.9 million for year ended December 31, 2007. The $13.4 million increase in selling, general and administrative expenses was primarily the result of increased compensation and related benefit costs of approximately $6.6 million due to headcount additions and salary increases, $4.9 million in increased professional fees related primarily to pending litigation, $2.5 million in increased stock-based compensation expense due to additional stock options and restricted common stock awards granted since December 31, 2007 and $0.8 million in increased depreciation expense, offset by a decrease in marketing expenses of $1.0 million.

Interest Income

	Year Ended December 31,	
	2008	2007
	(in thousands)	
Interest Income	$ 4,720	$ 5,606

Interest income decreased $0.9 million to $4.7 million for the year ended December 31, 2008 from $5.6 million for the year ended December 31, 2007. The $0.9 million decrease is primarily related to the decrease in our cash balance attributable to the repurchase of 3.0 million shares of common stock for an aggregate price of approximately $49.8 million, and the decrease in our weighted average interest rate to approximately 2.38% for the year ended December 31, 2008 from approximately 3.99% for the year ended December 31, 2007.

Realized Loss on Securities

	Year Ended December 31,	
	2008	2007
	(in thousands)	
Realized loss on securities	$ (5,956)	$ —

Due to the continued decline in the auction rate securities market we measured the fair value of our auction rate securities at each of the quarters in 2008, and determined in the third and fourth quarters of 2008 that the valuation of certain of our auction rate securities had significantly declined from the previously reported amounts. As a result we recognized a $6.0 million impairment charge during the year ended December 31, 2008. For further information regarding this impairment charge, please refer to Note 3 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K.

Provision for Income Taxes, Net

	Year Ended December 31,	
	2008	2007
	(in thousands)	
Provision for income taxes, net	$ (3,961)	$ (13,034)

The provision for income taxes for the year ended December 31, 2008 of $4.0 million consisted primarily of $0.7 million of federal tax expense, $0.6 of state income tax benefit, and $3.9 million of tax expense for our Canadian subsidiary. The provision for income taxes for the year ended December 31, 2007 of $13.0 million consisted primarily of $8.3 million of federal tax expense, $2.1 million of state and local income taxes, $0.5 million of adjustments due primarily to the changes in the New York State tax rate, and $2.1 million of tax expense for our Canadian subsidiaries. Included in tax expense for our Canadian subsidiary for the year ended December 31, 2008 and 2007 is $1.2 million and $1.1 million, respectively, for a permanent item relating to intangible amortization. These amounts have a 20.2% and 3.4% impact on the effective tax rate for the year ended December 31, 2008 and 2007, respectively. Our effective tax rate for the year ended December 31, 2008 is 69.5% compared with 39.8% for the year ended December 31, 2007. The primary reason for the variation in tax rates is the impairment loss on auction rate securities recorded during the year ended December 31, 2008. No tax benefit is recorded with respect to the impairment loss recorded on the auction rate securities. If such securities were sold and the losses were realized for tax purposes, the losses on such sales would be capital losses. 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 more likely than not that tax benefits would ultimately be realized from such losses. A full valuation allowance has been booked for the losses. Had it not been for the significant tax rate variation resulting from the impact of the impairment losses, our effective tax rate for the year ended December 31, 2008 would have been 34.0 % compared with 39.8% for the year ended December 31, 2007. The primary reason for the reduction in tax rate are the impact of rate changes on deferred taxes, tax return true-ups, and an increase in tax exempt or tax preferred income as a percentage of overall pre-tax income. The rate reduction attributable to tax return true-ups is primarily the result of state and local tax reductions due to planning initiatives.

In the event that the future income streams that we currently project do not materialize, we may be required to record a valuation allowance. Any increase in a valuation allowance would result in a charge that would adversely impact our operation performance.

Quarterly Results of Operations

The following table presents our unaudited quarterly consolidated results of operations for each of the eight quarters ended December 31, 2009. The unaudited quarterly consolidated information has been prepared substantially on the same basis as our audited consolidated financial statements. You should read the following tables presenting our quarterly consolidated results of operations in conjunction with our audited consolidated financial statements for our full years and the related notes. This table includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for the fair statement of our consolidated financial position and operating results for the quarters presented. The operating results for any quarters are not necessarily indicative of the operating results for any future period.

	First Quarter (3)	Second Quarter	Third Quarter	Fourth Quarter
	(Unaudited) (In thousands, except for share and per share data)			
2009				
Net revenue	$ 55,700	$ 57,870	$ 58,809	$ 53,247
Gross profit	26,579	29,018	30,144	26,010
Operating (loss) income	(9,871)	224	1,282	(2,585)
Net (loss) income	(5,625)	2,187	(215)	(681)
Basic net (loss) income per share applicable to common stockholders (1)	$ (0.14)	$ 0.05	$ (0.01)	$ (0.02)
Diluted net (loss) income per share applicable to common stockholders (1)	$ (0.14)	$ 0.05	$ (0.01)	$ (0.02)
Weighted average common stock outstanding (basic)	39,095,730	39,499,313	39,705,553	39,787,985
Weighted average shares common stock outstanding (diluted)	39,095,730	40,458,174	39,705,553	39,787,985

	First Quarter	Second Quarter	Third Quarter (4)	Fourth Quarter (5)
	(Unaudited) (In thousands, except for share and per share data)			
2008				
Net revenue	$ 64,308	$ 63,181	$ 60,525	$ 54,692
Gross profit	35,696	35,302	32,585	25,392
Operating income (loss)	2,822	4,208	3,056	(3,034)
Net income (loss)	2,338	3,066	(2,603)	(1,065)
Basic net income (loss) per share applicable to common stockholders (1) (2)	$ 0.05	$ 0.07	$ (0.07)	$ (0.03)
Diluted net income (loss) per share applicable to common stockholders (1) (2)	$ 0.05	$ 0.07	$ (0.07)	$ (0.03)
Weighted average common stock outstanding (basic)	41,637,585	41,505,451	39,769,935	38,963,048
Weighted average shares common stock outstanding (diluted)	42,805,884	42,609,342	39,769,935	38,963,048

(1) The addition of earnings per share by quarter may not equal total earnings per share for the year.

(2)

Earnings per share data for each of the quarters in the year ended December 31, 2008 have been retroactively adjusted to conform to the provisions of ASC Topic 260, Earnings Per Share, which did not have a significant impact on our historical earnings per share calculations. For further information, please refer to Note 2 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K.

(3) Included in the first quarter of 2009 net loss is a restructuring cost of approximately $6.7 million, including approximately $3.9 million of net non-cash compensation expense, related to the realignment of our workforce and business on January 5, 2009. For further information, please refer to Note 16 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K.

(4) Included in the third quarter of 2008 net loss is an impairment charge of $5.7 million, related to the significant decline in certain auction rate securities. For further information, please refer to Note 3 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K.

(5) Included in the fourth quarter of 2008 net loss is an impairment charge of $0.3 million, related to the significant decline in certain auction rate securities, as described in Note 3 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K, and a charge of $1.9 million, related to the impairment of an application processing contract with DHL, as described in Note 6 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K.

Liquidity and Capital Resources

Our liquidity requirements will continue to be for working capital, acquisitions, capital expenditures and general corporate purposes. Our capital expenditures, software and website development costs for the year ended December 31, 2009 were $21.3 million, of which $18.4 million was in cash. We expect to finance our future liquidity needs through working capital and cash flows from operations, however future acquisitions or other strategic initiatives may require us to incur or seek additional financing.

As of December 31, 2009, we had $197.5 million of cash and cash equivalents, $1.5 million in short-term investments, $4.0 million in non-current investments and $191.9 million in working capital, as compared to $155.5 million of cash and cash equivalents, $43.3 million in short-term investments, $4.4 million in non-current investments and $197.8 million in working capital as of December 31, 2008.

Reductions in interest rates and changes in investments could materially impact our interest income and may negatively impact future reported operating results and earnings per share.

Based on our available cash and other investments, we do not currently anticipate a lack of liquidity caused by failed auctions will have a material adverse effect on our operating cash flows. For further information regarding our auction rate securities, please refer to Note 3 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K.

As of December 31, 2008, $25.2 million remained in our stock repurchase program. No additional stock repurchases were made during 2009 and the program was terminated on March 31, 2009.

On January 23, 2009, we acquired the AAX ® 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 $30.9 million in cash, net of a $1.7 million purchase price adjustment. We expensed approximately $0.5 million of professional fees associated with the acquisition. For further information, please refer to Note 4 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K.

Under the terms of the merger agreement with AutoStyleMart, Inc., we have future contingent payment obligations of up to $11.0 million based upon the achievement of certain operational targets from February 2008 through February 2011. As of December 31, 2009, we determined that certain operational targets were probable of being achieved and recorded a liability of $1.0 million. The additional consideration of $1.0 million was deemed compensation for services, as payment was contingent on certain former stockholders remaining employees or consultants of DealerTrack for a certain period. The $1.0 million was recorded as a selling, general and administrative expense for the year ended December 31, 2009. As of December 31, 2009, it has been determined that the operational targets relating to the remaining $10.0 million in contingent payment obligations are not yet probable of being achieved. Any future amounts deemed probable in the future will also be recorded as a selling, general and administrative expense.

Under the terms of the merger agreement with Curomax Corporation, we had future contingent payment obligations of up to $1.8 million in cash based upon the achievement of certain operational targets over the subsequent twenty-four months. As of December 31, 2008, we determined that certain operational conditions have been met and as such, recorded a liability and additional goodwill of approximately $1.8 million. The additional consideration of $1.8 million was paid out in the first quarter of 2009.

In connection with the purchase of Automotive Lease Guide (ALG) on May 25, 2005, we have a contractual agreement with the seller to pay an additional $0.8 million per year for 2006 through 2010. There was additional contingent consideration of up to $11.3 million that could be paid contingent upon future increases in revenue of ALG and another one of our subsidiaries through December 2009. The total amount of consideration that has been paid or accrued as of December 31, 2009 was $3.1 million. The additional purchase price consideration was recorded as goodwill on our consolidated balance sheet.

On February 10, 2010, DealerTrack, Inc., a subsidiary of DealerTrack Holdings, Inc. (DealerTrack) entered into a strategic relationship with GMAC. Under the terms of the agreement, GMAC will be listed as a financing option on the DealerTrack credit application processing network and DealerTrack has agreed to make a one-time payment to GMAC of $15.0 million payable upon GMAC becoming available to substantially all dealers that it does business with who are on the DealerTrack U.S. network. The one-time $15.0 million payment will be recorded ratably as a reduction to revenue over an estimated period of five years. GMAC will be available to General Motors and Chrysler dealers, as well as dealers of other manufacturers that GMAC elects to do business with. GMAC will continue to accept credit applications through the RouteOne system.

The following table sets forth the cash flow components for the following periods (in thousands):

	Year Ended December 31, 2009	2008	2007
	(in thousands)		
Net cash provided by operating activities	$ 45,467	$ 61,494	$ 56,926
Net cash (used in) provided by investing activities	(8,283)	94,874	(168,725)
Net cash provided by (used in) financing activities	2,109	(47,816)	114,216

Operating Activities

Net cash provided by operating activities of $45.5 million for the year ended December 31, 2009 was primarily attributable to net loss of $4.3 million, which includes depreciation and amortization of $35.1 million, stock-based compensation expense of $17.0 million, an increase to the provision for doubtful accounts and sales credits of $7.7 million, an increase in accounts payable and accrued expenses of $3.0 million, a decrease in prepaid expenses and other current assets of $3.7 million, partially offset by a deferred tax benefit of $7.3 million, an increase in accounts receivable of $6.3 million due to an increase in subscription revenues and the acquisition of AAX , a stock-based compensation windfall tax benefit of $0.7 million, a gain of $1.4 million realized on the sale or conversion of securities, a decrease in other long-term liabilities of $0.6 million, and a $0.6 million reversal of an Arkona pre-acquisition sales tax liability contingency resolved subsequent to the close of the purchase accounting allocation period. Net cash provided by operating activities of $61.5 million for the year ended December 31, 2008 was primarily attributable to net income of $1.7 million, which includes depreciation and amortization of $40.1 million, stock-based compensation expense of $14.0 million, an increase to the provision for doubtful accounts and sales credits of $9.6 million, an impairment recognized on auction rate securities of $6.0 million (for further information regarding this impairment charge, please refer to Note 3 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K), an increase to deferred revenue and other current liabilities of $1.7 million, and an increase in other long-term liabilities of $1.5 million, partially offset by decreases in accounts payable and accrued expenses of $6.7 million, a deferred tax benefit of $2.1 million, a stock-based compensation windfall tax benefit of $0.4 million, an increase in prepaid expenses and other current assets of $2.9 million, and an increase in accounts receivable of $1.6 million. Net cash provided by operating activities of $56.9 million for the year ended December 31, 2007 was primarily attributable to net income of $19.8 million, which includes depreciation and amortization of $38.5 million, stock-based compensation expense of $10.9 million, an increase to the provision for doubtful accounts and sales credits of $6.8 million, an increase in accounts payable and accrued expenses of $3.9 million and an increase to deferred revenue and other current liabilities of $0.6 million, partially offset by a deferred tax benefit of $4.6 million, a stock-based compensation windfall tax benefit of $7.0 million, an increase in accounts receivable (including related party) of $11.0 million due to an overall increase in revenue.

Investing Activities

Net cash used in investing activities of $8.3 million for the year ended December 31, 2009 was primarily attributable to the sale of short-term investments of $44.6 million offset by the payment for the acquisition of AAX business and intangible assets of $30.9 million, the payment of the Curomax additional purchase consideration of $1.8 million, the payment of ALG additional purchase consideration of $1.9 million, capital expenditures of $5.4 million, capitalized software and website development costs of $13.0 million. Net cash provided by investing activities of $94.9 million for the year ended December 31, 2008 was primarily attributable to the net sale of investments of $115.8 million offset by capital expenditures of $6.5 million, capitalized software and website development costs of $8.6 million, and the payment for net assets acquired of $6.0 million. Net cash used in investing activities of $168.7 million for the year ended December 31, 2007 was primarily attributable to capital expenditures of $7.2 million, capitalized software and website development costs of $6.5 million, payment for net assets acquired of $109.6 million, and the net purchase of short-term investments of $45.5 million.

Financing Activities

Net cash provided by financing activities of $2.1 million for the year ended December 31, 2009 was primarily attributable to net proceeds received from the exercise of employee stock options of $2.2 million, employee stock purchases under our employee stock purchase plan of $0.9 million, and a stock-based compensation windfall tax benefit of $0.7 million, partially offset by payment for shares surrendered for taxes of $0.4 million related to restricted stock vesting, principal payments on notes payable of $0.8 million, and principal payments on capital lease obligations of $0.4 million. Net cash used in financing activities of $47.8 million for the year ended December 31, 2008 was primarily attributable to the repurchase of 3.0 million shares of common stock for an aggregate price of approximately $49.8 million, offset by net proceeds received from employee stock purchases under our employee stock purchase plan of $1.7 million and the exercise of employee stock options of $1.0 million. Net cash provided by financing activities of $114.2 million for the year ended December 31, 2007 was primarily attributable to the receipt of cash proceeds from our public offering of $102.2 million, the exercise of employee stock options of $4.0 million, net proceeds received from employee stock purchases under our employee stock purchase plan of $1.8 million, and stock-based compensation windfall tax benefit of $7.0 million, offset by principal payments on note payable and capital lease obligations of $0.7 million.

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2009:

	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
			(In thousands)		
Operating lease obligations	$ 28,934	$ 4,952	$ 8,361	$ 6,069	$ 9,552
Capital lease obligations	762	466	296	—	—
Payments due to acquirees	2,888	2,888	—	—	—
Total contractual cash obligation	$ 32,584	$ 8,306	$ 8,657	$ 6,069	$ 9,552

Payments due to acquirees are non-interest bearing and fixed in nature.

Pursuant to employment or severance agreements with certain employees, we have a commitment to pay severance of approximately $4.2 million as of December 31, 2009, 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 approximately $1.9 million as of December 31, 2009, if there is a change in control.

Under the terms of the merger agreement with AutoStyleMart, Inc., we have future contingent payment obligations of up to $11.0 million based upon the achievement of certain operational targets from February 2008 through February 2011. As of December 31, 2009, we determined that certain operational conditions were probable of being achieved and recorded a liability in accrued expenses of $1.0 million. The additional consideration of $1.0 million was deemed a contingent earn-out compensation expense for services on certain former stockholders remaining employees or consultants of DealerTrack for a certain period. The $1.0 million was recorded as a selling, general and administrative expense for the year ended December 31, 2009. As of December 31, 2009, it has been determined that the operational targets related to the remaining $10.0 million in contingent payment obligations are not yet probable of being achieved. Any future amounts deemed probable will also be recorded as a selling, general and administrative expense.

In connection with the purchase of Automotive Lease Guide on May 25, 2005, we have a contractual agreement with the seller to pay an additional $0.8 million per year for 2006 through 2010. There was additional contingent consideration of up to $11.3 million that could be paid contingent upon future increases in revenue of ALG and another one of our subsidiaries through December 2009. The total amount of contingent consideration remaining to be paid as of December 31, 2009 was $1.1 million. The additional purchase price consideration was recorded as goodwill on our consolidated balance sheet.

On February 10, 2010, DealerTrack, Inc., a subsidiary of DealerTrack Holdings, Inc. (DealerTrack) entered into a strategic relationship with GMAC. Under the terms of the agreement, GMAC will be listed as a financing option on the DealerTrack credit application processing network and DealerTrack has agreed to make a one-time payment to GMAC of $15.0 million payable upon GMAC becoming available to substantially all dealers that it does business with who are on the DealerTrack U.S. network. The one-time $15.0 million payment will be recorded ratably as a reduction to revenue over an estimated period of five years. GMAC will be available to General Motors and Chrysler dealers, as well as dealers of other manufacturers that GMAC elects to do business with. GMAC will continue to accept credit applications through the RouteOne system.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Effects of Inflation

Our monetary assets, consisting primarily of cash and cash equivalents, receivables and long-term investments, and our non-monetary assets, consisting primarily of intangible assets and goodwill, are not affected significantly by inflation. We believe that replacement costs of equipment, furniture and leasehold improvements will not materially affect our operations. However, the rate of inflation affects our expenses, which may not be readily recoverable in the prices of products and services we offer.

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued Revenue Recognition guidance around Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force. This guidance modifies the fair value requirements of Revenue Recognition-Multiple Element Arrangements by allowing the use of the "best estimate of selling price" in addition to VSOE and VOE (now referred to as third-party evidence or TPE) for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when VSOE or TPE of the selling price cannot be determined. In addition, the residual method of allocating arrangement consideration is no longer permitted. The final consensus is effective for fiscal years beginning after June 15, 2010. Companies will have the option of adopting the guidance retrospectively or prospectively for new or materially modified agreements. Early adoption is permitted as of the beginning of an entity's fiscal year. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In June 2009, the FASB issued the The FASB Accounting Standards Codification™ (the Codification) which became the single authoritative U.S. accounting and reporting standards applicable for all nongovernmental entities, with the exception of guidance issued by the Securities and Exchange Commission (SEC). The Codification does not change current U.S. GAAP, but changes the referencing of financial standards, and is intended to simplify user access to authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. The Codification is effective for interim and annual periods ending after September 15, 2009, and was effective for our third quarter of 2009. At that time, all references made to U.S. GAAP used the new Codification numbering system prescribed by the FASB.
The Codification does not change or alter existing U.S. GAAP and did not have any impact on our consolidated financial position, cash flows, or results of operations.

In June 2009, the FASB issued a new standard which modified how a company determines when it is required to consolidate an entity and is based on, among other things, an entity's purpose and design, a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance, and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. This new standard requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity and also requires additional disclosures about a company's involvement in variable interest entities and any significant changes in risk exposure due to that involvement. This standard is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exposure

We only have operations located in, and provide services to, customers in the United States and Canada. Our earnings are affected by fluctuations in the value of the U.S. dollar as compared with the Canadian dollar. Our exposure is mitigated, in part, by the fact that we incur certain operating costs in the same foreign currency in which revenue is denominated. The foreign currency exposure that does exist is limited by the fact that the majority of transactions are paid according to our standard payment terms, which are generally short-term in nature.

Interest Rate Exposure

As of December 31, 2009, we had cash, cash equivalents, short-term investments and long-term investments of $203.0 million invested in money market instruments, municipal notes, tax-exempt state government obligations and tax advantaged preferred securities. Such investments are subject to interest rate and credit risk. Our general policy of investing in securities with original maturities of three months or less minimizes our interest and credit risk.

Reductions in interest rates and changes in investments could materially impact our interest income and may negatively impact future reported operation results and earnings per share. An interest rate fluctuation of 1% would have an effect of approximately $1.1 million, or $0.03 per share, on future reported operating results.

Item 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

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, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 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, 2009, 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.

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, 2010

DEALERTRACK HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2009	December 31, 2008
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 197,509	$ 155,456
Short-term investments	1,484	43,350
Accounts receivable, net of allowances of $2,677 and $1,848 as of December 31, 2009 and 2008, respectively	17,478	18,462
Prepaid expenses and other current assets	6,844	9,624
Deferred tax assets	2,776	2,195
Restricted cash	—	142
Total current assets	226,091	229,229
Long-term investments	3,971	4,392
Property and equipment, net	13,514	13,448
Software and website developments costs, net	21,158	12,705
Intangible assets, net	41,604	44,405
Goodwill	134,747	114,886
Restricted cash	250	250
Deferred taxes and other long-term assets	30,992	17,900
Total assets	$ 472,327	$ 437,215
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 3,919	$ 4,488
Accrued compensation and employee benefits	11,717	7,850
Accrued liabilities — other	11,324	11,385
Deferred revenues	4,992	5,609
Due to acquirees	1,820	1,740
Capital leases payable	425	360
Total current liabilities	34,197	31,432
Capital leases payable — long-term	281	454
Due to acquirees — long-term	—	682
Deferred tax liabilities — long-term	11,083	2,477
Deferred revenue and other long-term liabilities	5,880	5,950
Total liabilities	51,441	40,995
Commitments and contingencies (Note 14)		

Stockholders' equity		
Preferred stock, $0.01 par value; 10,000,000 shares authorized and no shares issued and outstanding at December 31, 2009 and 2008, respectively	—	—
Common stock, $0.01 par value; 175,000,000 shares authorized; 43,469,945 shares issued and 40,430,330 shares outstanding at December 31, 2009; and 42,841,737 shares issued and 39,833,616 shares outstanding at December 31, 2008	435	428
Treasury stock, at cost, 3,039,615 and 3,008,121 shares as of December 31, 2009 and 2008, respectively	(50,440)	(50,061)
Additional paid-in capital	448,816	428,771
Deferred stock-based compensation	—	(446)
Accumulated other comprehensive income	6,151	(2,730)
Retained earnings	15,924	20,258
Total stockholders' equity	420,886	396,220
Total liabilities and stockholders' equity	$ 472,327	$ 437,215

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

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DEALERTRACK HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2009	2008	2007
	(In thousands, except per share and share amounts)		
Revenue			
Net revenue	$ 225,626	$ 242,706	$ 233,845
Operating expenses :			
Cost of revenue (1)	113,875	113,731	99,631
Product development (1)	13,994	11,658	9,808
Selling, general and administrative (1)	108,707	110,265	96,875
Total operating expenses	236,576	235,654	206,314
(Loss) income from operations	(10,950)	7,052	27,531
Interest income	1,081	4,720	5,606
Interest expense	(221)	(324)	(355)
Other income, net	844	205	4
Realized gain (loss) on securities (Note 3)			