

DealerTrack Holdings, Inc.
Form 10-Q
May 06, 2010

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

Form 10-Q

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

For the quarterly period ended March 31, 2010

OR

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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):

Edgar Filing: DealerTrack Holdings, Inc. - Form 10-Q

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(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
 No

As of April 30, 2010, 40,303,825 shares of the registrant's common stock were outstanding.

DEALERTRACK HOLDINGS, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	3
Item 1. Financial Statements	3
Consolidated Balance Sheets (unaudited)	3
Consolidated Statements of Operations (unaudited)	4
Consolidated Statements of Cash Flows (unaudited)	5
Notes to Consolidated Financial Statements (unaudited)	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3. Quantitative and Qualitative Disclosures About Market Risk	26
Item 4. Controls and Procedures	26
PART II. OTHER INFORMATION	26
Item 1. Legal Proceedings	26
Item 1A. Risk Factors	27
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	27
Item 6. Exhibits	28
Signature	28
EX-31.1: CERTIFICATION	
EX-31.2: CERTIFICATION	
EX-32.1: CERTIFICATION	

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

DEALERTRACK HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS
(unaudited)

	March 31, 2010	December 31, 2009
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 183,210	\$ 197,509
Short-term investments	69	1,484
Accounts receivable, net of allowances of \$2,433 and \$2,677 as of March 31, 2010 and December 31, 2009, respectively	21,208	17,478
Prepaid expenses and other current assets	12,949	6,844
Deferred tax assets	18,610	2,776
Total current assets	236,046	226,091
Long-term investments	3,975	3,971
Property and equipment, net	15,345	13,514
Software and website developments costs, net	22,565	21,158
Intangible assets, net	37,589	41,604
Goodwill	135,667	134,747
Deferred tax assets — long-term	16,431	29,699
Other long-term assets	14,749	1,543
Total assets	\$ 482,367	\$ 472,327
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 4,699	\$ 3,919
Accrued compensation and benefits	5,452	11,717
Accrued liabilities — other	26,048	11,324
Deferred revenues	4,929	4,992
Due to acquirees	723	1,820
Capital leases payable	518	425
Total current liabilities	42,369	34,197
Capital leases payable — long-term	352	281
Deferred tax liabilities — long-term	11,330	11,083
Deferred revenues — long-term	3,540	3,299

Edgar Filing: DealerTrack Holdings, Inc. - Form 10-Q

Other long-term liabilities	2,559	2,581
Total liabilities	60,150	51,441
Commitments and contingencies (Note 13)		
Stockholders' equity		
Preferred stock, \$0.01 par value: 10,000,000 shares authorized and no shares issued and outstanding as of March 31, 2010 and December 31, 2009	—	—
Common stock, \$0.01 par value: 175,000,000 shares authorized; 43,349,416 shares issued and 40,277,295 shares outstanding as of March 31, 2010; and 175,000,000 shares authorized; 43,469,945 shares issued and 40,430,330 shares outstanding as of December 31, 2009	434	435
Treasury stock, at cost, 3,072,121 shares and 3,039,615 shares as of March 31, 2010 and December 31, 2009, respectively	(51,030)	(50,440)
Additional paid-in capital	452,353	448,816
Accumulated other comprehensive income	6,987	6,151
Retained earnings	13,473	15,924
Total stockholders' equity	422,217	420,886
Total liabilities and stockholders' equity	\$ 482,367	\$ 472,327

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

DEALERTRACK HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended March 31,	
	2010	2009
	(In thousands, except share and per share amounts)	
Revenue:		
Net revenue	\$ 56,785	\$ 55,700
Operating expenses:		
Cost of revenue (1)	30,717	29,121
Product development (1)	3,598	4,132
Selling, general and administrative (1)	27,408	32,318
Total operating expenses	61,723	65,571
Loss from operations	(4,938)	(9,871)
Interest income	126	402
Interest expense	(59)	(50)
Other income	624	50
Realized gain on securities	582	463
Loss before benefit for income taxes	(3,665)	(9,006)
Benefit for income taxes, net	1,214	3,381
Net loss	\$ (2,451)	\$ (5,625)
Basic net loss per share	\$ (0.06)	\$ (0.14)
Diluted net loss per share	\$ (0.06)	\$ (0.14)
Weighted average common stock outstanding (basic)	40,154,275	39,095,730
Weighted average common stock outstanding (diluted)	40,154,275	39,095,730

(1) Stock-based compensation expense recorded for the three months ended March 31, 2010 and 2009 was classified as follows:

	Three Months Ended March 31,	
	2010	2009 (2)
Cost of revenue	\$ 403	\$ 613
Product development	151	210
Selling, general and administrative	2,188	6,583

(2) Included in stock-based compensation expense for the three months ended March 31, 2009 was \$3.9 million of stock-based compensation expense related to the realignment of our workforce and business on January 5, 2009, which was primarily allocated to selling, general and administrative expenses.

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

DEALERTRACK HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three Months Ended March 31,	
	2010	2009
	(In thousands)	
Operating Activities:		
Net loss	\$ (2,451)	\$ (5,625)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	9,240	8,775
Deferred tax provision (benefit)	13,372	(3,359)
Stock-based compensation expense	2,742	7,406
Provision for doubtful accounts and sales credits	1,463	2,458
Gain on sale of property and equipment	—	(166)
Amortization of bond premium	—	40
Amortization of deferred interest	41	34
Deferred compensation	—	75
Stock-based compensation windfall tax benefit	(629)	(829)
Realized gain on securities	(582)	(463)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(5,004)	(5,415)
Prepaid expenses and other current assets	(18,016)	(3,977)
Accounts payable and accrued expenses	5,219	259
Deferred revenue	(69)	371
Other long-term liabilities	184	(336)
Deferred rent	30	41
Other long-term assets	(13,206)	(448)
Net cash used in operating activities	(7,666)	(1,159)
Investing Activities:		
Capital expenditures	(2,527)	(1,273)
Restricted cash	—	114
Sale of investments	—	31,300
Capitalized software and website development costs	(2,244)	(3,050)
Proceeds from sale of property and equipment	—	71
Payment for acquisition of businesses and intangible assets, net of acquired cash	(2,278)	(33,808)
Net cash used in investing activities	(7,049)	(6,646)
Financing Activities:		
Principal payments on capital lease obligations	(126)	(92)
Proceeds from the exercise of employee stock options	97	935
Proceeds from employee stock purchase plan	236	342
Purchase of treasury stock	(590)	(325)
Principal payments on notes payable	—	(212)
Stock-based compensation windfall tax benefit	629	829

Net cash provided by financing activities	246	1,477
Net decrease in cash and cash equivalents	(14,469)	(6,328)
Effect of exchange rate changes on cash and cash equivalents	170	(472)
Cash and cash equivalents, beginning of period	197,509	155,456
Cash and cash equivalents, end of period	\$ 183,210	\$ 148,656
Supplemental disclosure:		
Cash paid for:		
Income taxes	\$ 2,536	\$ 2,173
Interest	18	16
Non-cash investing and financing activities:		
Accrued capitalized hardware, software and fixed assets	1,843	873
Receivable for sale of securities	1,419	—
Assets acquired under capital lease	289	—
Capitalized stock-based compensation	18	38
Asset sale through note receivable	—	500
Deferred compensation reversal to equity	—	75

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

DEALERTRACK HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Business Description

DealerTrack's intuitive and high-value software solutions enhance efficiency and profitability for all major segments of the automotive retail industry, including dealers, lenders, OEM's, 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 approximately 850 lenders. Our dealer management system (DMS) provides dealers with easy-to-use tools and real-time data access that will streamline any automotive business. Dealers using DealerTrack AAX get inventory management tools and services needed to accelerate turns and increase profit. Our sales and finance & 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 and consulting services providers, ALG and Chrome Systems.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements for the three months ended March 31, 2010 and 2009 have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not necessarily include all information and footnotes necessary for a fair presentation of its consolidated financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States (GAAP). The December 31, 2009 balance sheet information has been derived from the audited financial statements at that date but does not include all disclosures required by GAAP.

In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments, which are normal and recurring, necessary for a fair presentation of a statement of results of operations, financial position and cash flows. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009, filed with the Securities and Exchange Commission (SEC) on February 24, 2010. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2010.

The preparation of financial statements in conformity with GAAP require management to make estimates and assumptions that affect the reported amounts and the disclosures of contingent amounts in our financial statements and the accompanying notes. Actual results could differ from those estimates.

3. Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures for significant transfers in and out of Level 1 and Level 2 fair value measurements and to provide a gross presentation of the activities, including purchases, sales, issuances, and settlements, within the Level 3 rollforward. The guidance also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The new disclosure requirements are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about the Level 3 rollforward, which are

effective for fiscal years beginning after December 15, 2010. The adoption of the new disclosure requirements applicable for our first quarter of 2010 did not have a material impact on our consolidated financial statements. We do not expect the full adoption of the guidance to have a material impact on our fair value measurement disclosures.

In October 2009, the 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 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 have adopted the provisions of this standard prospectively as of January 1, 2010, which did not have a material impact on our consolidated financial statements.

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 and 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 have adopted the provisions of this standard as of January 1, 2010, which did not have a material impact on our consolidated financial statements.

4. 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 value 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 March 31, 2010 and December 31, 2009 (in thousands):

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	March 31, 2010
As of March 31, 2010				
Cash equivalents (1)	\$ 158,209	\$ —	\$ —	\$ 158,209
Short-term investments (3)	69	—	—	69
Long-term investments (4)	—	—	3,975	3,975
Total	\$ 158,278	\$ —	\$ 3,975	\$ 162,253

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	December 31, 2009
As of December 31, 2009				
Cash equivalents (1) (2)	\$ 163,615	\$ —	\$ —	\$ 163,615
Short-term investments (3)	1,484	—	—	1,484
Long-term investments (4)	—	—	3,971	3,971
Total	\$ 165,099	\$ —	\$ 3,971	\$ 169,070

(1) Cash equivalents consist primarily of money market funds with original maturity dates of three months or less, for which we determine fair value through quoted market prices.

(2) Level 1 cash equivalents of approximately \$163.6 million as of December 31, 2009 has been revised from \$127.6 million as previously disclosed in the fair value measurement footnote in our Annual Report on

Edgar Filing: DealerTrack Holdings, Inc. - Form 10-Q

Form 10-K for the year ended December 31, 2009 filed with the SEC on February 24, 2010 to reflect the inclusion of a money market account held at December 31, 2009 that was incorrectly omitted from our original disclosure. Amounts classified as cash and cash equivalents on our audited balance sheet at December 31, 2009 were correctly stated.

- (3) As of March 31, 2010 and December 31, 2009, Level 1 short-term investments include investments in tax-advantaged preferred securities, for which we determined fair value based on the quoted market prices of the underlying securities. During the three months ended March 31, 2010, we sold a portion of our Level 1 investments in tax-advantaged preferred securities for approximately \$1.4 million and recorded a realized gain in the statement of operations of approximately \$0.6 million.

(4) Level 3 long-term investments as of both March 31, 2010 and December 31, 2009 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 September 2011, coupled with ongoing failed auctions in the marketplace.

Level 3 long-term investments as of both March 31, 2010 and December 31, 2009 also include a \$2.4 million, or 0.5% of total assets, 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.

A reconciliation of the beginning and ending balances for Level 3 investments as of March 31, 2010 and December 31, 2009, is as follows (in thousands):

Balance as of January 1, 2009	\$ 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
Unrealized gain on securities recorded in other comprehensive income (5)	4
Balance as of March 31, 2010	\$ 3,975

(5) During 2009 our investments in Level 2 ARS invested in certain tax-advantaged preferred stock trusts held as of January 1, 2009 dissolved and the trustees distributed the underlying preferred stock investments. As a result of these dissolutions 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 \$1.4 million as of December 31, 2008 to \$2.1 million on the distribution date and as a result we recorded a realized gain in the statement of operations of \$0.7 million. Subsequent to the trust dissolution we re-measured the fair value on December 31, 2009 and March 31, 2010 and determined that the value had increased and recorded a gain in other comprehensive income of \$0.3 million and approximately \$4,000, respectively. 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 both December 31, 2009 and March 31, 2010 is approximately \$2.4 million.

5. Net Loss Per Share

We compute net loss per share in accordance with FASB ASC Topic 260, "Earnings Per Share" (ASC Topic 260). Under ASC Topic 260, basic earnings per share is calculated by dividing net (loss) income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding, assuming dilution, during the period. The diluted earnings per share calculation assumes (i) all stock options which are in the money are exercised at the beginning of the period and (ii) if applicable, unvested awards that are considered to be contingently issuable shares because they contain either a performance or market condition will be included in diluted earnings per share if dilutive and if their conditions have (a) been satisfied at the reporting date or (b) would have been satisfied if the reporting date was the end of the contingency period.

Edgar Filing: DealerTrack Holdings, Inc. - Form 10-Q

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

	Three Months Ended March 31,	
	2010	2009
Numerator:		
Net loss	\$ (2,451)	\$ (5,625)
Denominator:		
Weighted average common stock outstanding (basic)	40,154,275	39,095,730
Common equivalent shares from options to purchase common stock, restricted common stock units, and performance stock units	—	—
Weighted average common stock outstanding (diluted)	40,154,275	39,095,730
Basic and diluted net loss per share	\$ (0.06)	\$ (0.14)

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

	Three Months Ended March 31,	
	2010	2009
Stock options	4,628,996	4,982,840
Restricted stock units	665,677	475,938
Performance stock units	13,275	—
Total antidilutive awards	5,307,948	5,458,778

6. Comprehensive Loss

The components of comprehensive loss were as follows (in thousands):

	Three Months Ended March 31,	
	2010	2009
Net loss	\$ (2,451)	\$ (5,625)
Foreign currency translation adjustments	1,410	(1,315)
Unrealized loss on available for sale securities	(574)	(239)
Total comprehensive loss	\$ (1,615)	\$ (7,179)

For the three months ended March 31, 2010 and 2009, the foreign currency translation adjustment primarily represents the effect on translating the intangibles and goodwill related to an acquisition in Canada.

7. Stock-Based Compensation Expense

We have five types of stock-based compensation: stock options, restricted common stock, restricted stock units, performance stock units and common stock issued under an employee stock purchase plan (ESPP). For further information see Notes 2 and 11 included in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on February 24, 2010.

The following summarizes stock-based compensation expense recognized for the three months ended March 31, 2010 and 2009 (in thousands):

	Three Months Ended March 31,	
	2010	2009 (4)
Stock options	\$ 1,473	\$ 5,332
Restricted common stock (1)	566	1,604
Restricted stock units	665	410
Performance stock units (2)	38	—
ESPP (3)	—	60
Total stock-based compensation expense	\$ 2,742	\$ 7,406

(1)The expense recorded to restricted common stock includes expense related to the EBITDA Performance Award and the Market Value Award granted under the Long-Term Incentive Plan (LTIP) for the three months ended March 31, 2010 and 2009 as follows (in thousands):

Edgar Filing: DealerTrack Holdings, Inc. - Form 10-Q

	Three Months Ended March 31,	
	2010	2009
EBITDA Performance Award	\$ 40	\$ 120
Market Value Award	45	(106)
Total	\$ 85	\$ 14

For further information about EBITDA Performance Award and Market Value Award, please refer to Note 11 included in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on February 24, 2010.

(2) Expense relates to 129,860 performance stock units (PSU's) granted on March 9, 2010 to certain executives of the company. The actual number of PSU's to be delivered is subject to adjustment ranging from 0% (threshold) to 137.5% (maximum) based solely upon the achievement of certain performance targets and other vesting conditions. Each individual's award was allocated 50% to achieving adjusted net income (ANI) targets for the year ended December 31, 2010 (ANI Performance Award) and 50% to the total shareholder return (TSR) of our common stock as compared to other companies in the NASDAQ Internet Index in the aggregate for the fiscal years 2010, 2011, and 2012 (TSR Award). The awards will be earned based upon our achievement of ANI and TSR targets, but will not vest unless the grantee remains continuously employed in active service until January 31, 2013. In addition, the PSU's are subject to forfeiture if the company's performance goals are not achieved. The awards are subject to acceleration in full if an executive is terminated without cause, or resigns for good reason within twelve months of a change in control. We have valued the ANI Performance Award and the TSR Award using the Black-Scholes and Monte Carlo valuation pricing models, respectively. The total fair value of the ANI Performance Award, based on the number of awards expected to vest, was \$0.9 million, which we began expensing during the first quarter of 2010 as it was deemed probable that we will achieve a portion of the ANI targets for 2010. The total fair value of the TSR Award was \$1.1 million, which is expensed on a straight-line basis from the date of grant over the applicable service period. As long as the service condition is satisfied, the expense is not reversed, even in the event the TSR Award targets are not achieved. The expense recorded for PSU's includes expense related to the ANI Performance Award and the TSR Award for the three months ended March 31, 2010 as follows (in thousands):

ANI Performance Award	\$	13
TSR Award		25
Total	\$	38

(3) On April 1, 2009, the discount on the purchase price of shares of common stock under the ESPP was reduced from 15% to 5%. As such, we are no longer required to record stock-based compensation expense for the discount.

(4) Included in stock-based compensation expense for the three months ended March 31, 2009 was \$3.9 million of stock-based compensation expense related to the realignment of our workforce and business on January 5, 2009.

8. Property and Equipment

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

	Estimated Useful Life (Years)	March 31, 2010	December 31, 2009
Computer equipment	3 – 5	\$ 25,868	\$ 22,662
Office equipment	5	3,640	3,550
Furniture and fixtures	5	3,362	3,343
Leasehold improvements	5-11	3,228	3,188
Total property and equipment, gross		36,098	32,743
Less: Accumulated depreciation and amortization		(20,753)	(19,229)
Total property and equipment, net		\$ 15,345	\$ 13,514

Depreciation and amortization expense related to property and equipment for the three months ended March 31, 2010 and 2009 was \$1.9 million and \$1.7 million, respectively.

9. Intangible Assets

The gross book value, accumulated amortization and amortization periods of the intangible assets were as follows (dollars in thousands):

	March 31, 2010		December 31, 2009		Amortization Period (Years)
	Gross Book Value	Accumulated Amortization	Gross Book Value	Accumulated Amortization	
Customer contracts	\$ 41,497	\$ (27,678)	\$ 40,352	\$ (24,769)	2-7
Database	13,825	(11,477)	13,825	(10,945)	3-6
Trade names	12,599	(7,281)	12,510	(6,924)	2-10
Technology	27,585	(12,454)	27,170	(11,110)	1-5
Non-compete agreement	6,585	(5,612)	6,585	(5,090)	3-5
Total	\$ 102,091	\$ (64,502)	\$ 100,442	\$ (58,838)	

Amortization expense related to intangibles for the three months ended March 31, 2010 and 2009 was \$5.2 million and \$5.3 million, respectively.

Amortization expense that will be charged to income for the remaining period of 2010 is \$14.3 million and for each of the subsequent five years is estimated, based on the March 31, 2010 book value, as follows (in thousands):

2011	\$ 10,778
2012	5,649
2013	3,591
2014	2,189
2015	1,089
Total	\$ 23,296

10. Goodwill

The change in carrying amount of goodwill for the three months ended March 31, 2010 is as follows (in thousands):

Balance as of January 1, 2010	\$ 134,747
Impact of change in Canadian dollar exchange rate	761
Other	159
Balance as of March 31, 2010	\$ 135,667

11. Accrued Liabilities - Other

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

	March 31, 2010	December 31, 2009
GMAC strategic agreement fee (Note 16)	\$ 15,000	\$ —

Edgar Filing: DealerTrack Holdings, Inc. - Form 10-Q

Customer deposits	2,356	2,357
Revenue share	1,783	1,284
Professional fees	1,559	2,280
Software licenses	1,204	1,325
Sales taxes	934	883
Other	3,212	3,195
Total accrued liabilities - other	\$ 26,048	\$ 11,324

12. Income Taxes

We file a consolidated US income tax return and tax returns in various state and local jurisdictions. Certain of our subsidiaries also file income tax returns in Canada. The New York State Department of Revenue has initiated a review of our combined New York State income tax returns for the periods ended December 31, 2006 and December 31, 2007. No adjustments have been proposed which would require us to book a reserve at this time. During 2009 the Internal Revenue Service (IRS) concluded a review of our consolidated federal income tax returns for the periods ended December 31, 2006 and December 31, 2007 with no income tax adjustments. In 2009 the IRS also completed an examination of DealerTrack Systems, Inc. (f/k/a Arkona, Inc.) for the period ended March 31, 2006 (pre-acquisition) period. The federal audit was concluded with no income tax adjustments. All of our other significant taxing jurisdictions are closed for years prior to 2006.

The total liability for uncertain tax positions recorded in our balance sheet in accrued other liabilities as of March 31, 2010 and December 31, 2009, was \$0.9 million and \$0.8 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 both March 31, 2010 and December 31, 2009, accrued interest and penalties related to tax positions taken on our tax returns is approximately \$47,000.

13. Commitments and Contingencies

Commitments

Purchase Commitment

On March 31, 2010, we entered into an equipment and software purchase agreement with a vendor. Under the terms of the agreement, we are committed to purchasing certain equipment and software totaling approximately \$5.4 million in 2010 and an additional \$2.7 million in 2011. Both commitments are non-cancellable, however, we have not accepted title or risk of loss of any of the aforementioned equipment or software as of March 31, 2010.

ERP Agreement

During April 2010, we entered into an agreement with an ERP provider to purchase certain software licenses, computer equipment, and implementation consulting services. The estimated capital expenditures in 2010 related to the ERP project are expected to be approximately \$5.0 million.

Contingencies

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

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

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 \$5.3 million (CAD) to \$5.9 million (CAD), including penalties and interest.

AAX Service Credit

Under the terms of the purchase agreement with AAX ® the seller was granted the right to service credits of \$2.5 million, which may be applied against fees that are charged in connection with their purchase of any future products or services of DealerTrack. These service credits expire on January 23, 2013. No revenue will be recorded for services provided under the service credits. As of March 31, 2010, none of the service credits have been utilized by the seller. Subsequent to March 31, 2010, approximately \$0.1 million of the service credits were utilized.

ASM Contingent Purchase Price

Under the terms of the merger agreement with AutoStyleMart, Inc., we have a future contingent payment obligation 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 \$1.0 million was deemed compensation for services, as payment was also contingent on certain former stockholders remaining employees or consultants of DealerTrack for a certain period. The \$1.0 million of additional consideration was paid in the first quarter of 2010. As of March 31, 2010, it has been determined that achievement of the operational targets related to the remaining \$10.0 million in contingent payment obligations is not yet probable. Any amounts deemed probable in the future will also be recorded as compensation expense. We will assess the probability of the achievement of the operational targets on a quarterly basis.

ALG Additional Consideration

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.

Employment Agreements

Pursuant to employment or severance agreements with certain employees, we had a commitment to pay severance of approximately \$4.6 million as of March 31, 2010, in the event of termination without cause, as defined in the agreements, as well as certain potential gross-up payments to the extent any such severance payment would constitute an excess parachute payment under the Internal Revenue Code. We also have a commitment to pay additional severance of \$2.0 million as of March 31, 2010, if there is a change in control.

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.

14. Segment Information

The segment information provided in the table below is being reported consistent with our method of internal reporting. Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The chief operating decision maker reviews information at a consolidated level, as such we have one reportable segment. For enterprise-wide disclosure, we are organized primarily on the basis of service lines. Revenue earned outside of the United States for the three months ended March 31, 2010 and 2009 is approximately 12% and 9%, of our total revenue, respectively.

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

	Three Months Ended March 31,	
	2010	2009
Transaction services revenue	\$ 22,870	\$ 24,041
Subscription services revenue	29,728	27,943
Other	4,187	3,716
Total net revenue	\$ 56,785	\$ 55,700

15. Exit from SCS Business

On February 14, 2009, DealerTrack exited its SCS business in a transaction with a former senior executive of the company who left the organization in January 2009 as part of the realignment of our workforce. The SCS business, which accounted for approximately \$1.9 million of revenue in 2008, is an administration system used by aftermarket providers as their back-end origination solution. The SCS entity was and will continue to be funded through owner contributions and ongoing operations. DealerTrack recorded a gain of approximately \$0.2 million upon sale which was classified as a contra expense in selling, general and administrative expenses for the twelve months ended December 31, 2009.

If the purchaser of the business goes through a change of control prior to February 14, 2014, we can earn up to \$2.0 million in contingent purchase price from this transaction. If the purchaser does not undergo a change of control by February 14, 2014, the purchaser will pay DealerTrack a one time payment of \$0.5 million. These contingent payments accrue interest at an annual compound interest rate of 12 month LIBOR plus 3%. As of March 31, 2010, DealerTrack's maximum exposure is approximately \$0.5 million. As of March 31, 2010, we have recorded a long-term receivable of approximately \$0.4 million, which represents the present value of the expected future contingent payments.

The newly formed company is a variable interest entity (VIE), as defined in FASB ASC Topic 810, "Consolidations," which provides a framework for identifying VIEs and determining when a company should include the assets, liabilities, non controlling interests and results of activities of a VIE in its consolidated financial statements. The primary beneficiary is the party that consolidates a VIE based on its assessment that it will absorb a majority of the expected losses or expected residual returns of the entity, or both, and has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance. We have determined that we are not the primary beneficiary of the newly formed entity described above as we do not have any board or management representation or the ability to direct or control the operations of the SCS entity and, therefore, have not included the assets and liabilities or results of operations in our consolidated financial statements. The significant assumptions and judgments used in determining whether we are the primary beneficiary included the fair value of the note receivable from the SCS entity and the fair value of the SCS entity. Unfavorable changes to the fair values could result in consolidation of the SCS entity. We will assess the need for consolidation on a quarterly basis.

16. Strategic Agreement with General Motors Acceptance Corporation (GMAC)

On February 10, 2010, 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. As of March 31, 2010 we accrued \$15.0 million as a current liability as it was deemed probable this contingency will be resolved within a year. The one-time \$15.0 million payment will be recorded as a reduction to revenue over the period of expected benefit of approximately 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.

17. Settlement with Service Provider

During the three months ended March 31, 2010 we received a settlement of approximately \$0.4 million related to the cancellation of a services agreement from our eDocs business, which has been recorded to other income in the statement of operations.

Item 2. 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. Certain statements in this Quarterly Report on Form 10-Q 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 that could materially affect such forward-looking statements can be found in the sections entitled "Risk Factors" in Part II, Item 1A. in this Quarterly Report on Form 10-Q and in Part I, Item 1A. in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on February 24, 2010. 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.

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, OEM's, 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 approximately 850 lenders. Our dealer management system (DMS) provides dealers with easy-to-use tools and real-time data access that will streamline any automotive business. Dealers using DealerTrack AAX get inventory management tools and services needed to accelerate turns and increase profit. Our sales and finance & 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 and consulting services providers, ALG and Chrome Systems.

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 ALG, Inc., Chrome Systems, Inc., DealerTrack Aftermarket Services, Inc., DealerTrack AAX, 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, the 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 non-GAAP financial measures 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 (amounts in thousands, are adjusted EBITDA, adjusted net income, capital expenditure data and transactions processed):

	Three Months Ended March 31,	
	2010	2009
Non-GAAP Financial Measures and Other Business Statistics:		
Adjusted EBITDA (Non-GAAP) (1)	\$ 4,942	\$ 6,077
Adjusted net income (Non-GAAP) (1)	\$ 2,065	\$ 3,822
Capital expenditures, software and website development costs	\$ 6,920	\$ 5,234
Active dealers in our network as of end of the period (2)	16,860	18,998
Active lenders in our network as of end of period (3)	847	736
Active lender to dealer relationships (4)	127,724	134,475
Subscribing dealers in our network as of end of the period (5)	13,705	14,646
Transactions processed (6)	11,841	14,327
Average transaction price (7)	\$ 1.93	\$ 1.68
Average monthly subscription revenue per subscribing dealership (8)	\$ 719	\$ 635

(1) Adjusted EBITDA is a non-GAAP financial measure that represents GAAP net (loss) income excluding interest, taxes, depreciation and amortization expenses, 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, which are shown before taxes, are adjusted for their tax impact. Adjusted EBITDA and adjusted net income are presented because management believes they provide additional 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 them in isolation from, or as a substitute for analysis of our results as reported under 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 charges or gains 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 measures 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 supplements to our GAAP results. Adjusted EBITDA and adjusted net income are measures of our performance that are not required by, or presented in accordance with, GAAP. Adjusted EBITDA and adjusted net income are not a measurements 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, our most directly comparable financial measure in accordance with GAAP (in thousands):

	Three Months Ended March 31,	
	2010	2009
GAAP net loss	\$ (2,451)	\$ (5,625)
Interest income	(126)	(402)
Interest expense	59	50
Benefit for income taxes	(1,214)	(3,381)
Depreciation of property and equipment and amortization of capitalized software and website costs	4,006	3,443
Amortization of acquired identifiable intangibles	5,234	5,286