

DealerTrack Holdings, Inc.  
Form 10-K  
February 28, 2008

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-K**

(Mark One)

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

**For the fiscal year ended December 31, 2007**

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

**Common Stock, \$0.01 Par Value Per Share**  
*(Title of each class)*

**The NASDAQ Stock Market, LLC**  
*(Name of exchange on which registered)*

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by 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 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.

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  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

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

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 29, 2007, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$1.2 billion (based on the closing price for the registrant's common stock on the NASDAQ Global Market of \$36.84 per share).

As of February 1, 2008, 42,556,890 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, 2007. Portions of such proxy statement are incorporated by reference into Part III of this Annual Report on Form 10-K.

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**TABLE OF CONTENTS**

	<b>Page</b>
<u>Item 1. Business</u>	3
<u>Item 1A. Risk Factors</u>	15
<u>Item 1B. Unresolved Staff Comments</u>	25
<u>Item 2. Properties</u>	26
<u>Item 3. Legal Proceedings</u>	26
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	27
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	27
<u>Item 6. Selected Consolidated Financial Data</u>	29
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	48
<u>Item 8. Financial Statements and Supplementary Data</u>	50
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	86
<u>Item 9A. Controls and Procedures</u>	87
<u>Item 9B. Other Information</u>	87
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	87
<u>Item 11. Executive Compensation</u>	87
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	88
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	88
<u>Item 14. Principal Accounting Fees and Services</u>	88
<u>Item 15. Exhibits and Financial Statement Schedule</u>	88
EX-21.1: LIST OF SUBSIDIARIES	
EX-23.1: CONSENT OF PRICEWATERHOUSECOOPERS LLP	
EX-31.1: CERTIFICATION	
EX-31.2: CERTIFICATION	
EX-32.1: CERTIFICATIONS	
<u>EX-21.1: LIST OF SUBSIDIARIES</u>	
<u>EX-23.1: CONSENT OF PRICEWATERHOUSECOOPERS LLP</u>	
<u>EX-31.1: CERTIFICATION</u>	
<u>EX-31.2: CERTIFICATION</u>	
<u>EX-32.1: CERTIFICATION</u>	

**Table of Contents**

**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 Holdings, Inc. is a leading provider of on-demand software and data solutions for the automotive and related specialty retail industries in the United States. Utilizing the Internet, we have built a network connecting automotive dealers with banks, finance companies, credit unions and other financing sources, and other service and information providers, such as aftermarket providers and the major credit reporting agencies. We have established a network of active relationships in the United States, which, as of December 31, 2007, consisted of over 22,000 automotive dealers, including approximately 90% of all franchised dealers; over 450 financing sources and a number of other service and information providers to the automotive retail industry. Our credit application processing product enables dealers to automate and accelerate the indirect automotive financing process by increasing the speed of communications between these dealers and their financing sources. We have leveraged our leading market position in credit application processing to address other inefficiencies in the automotive retail industry value chain. We believe our proven network offers a competitive advantage for distribution of our software and data solutions. Our integrated subscription-based software products and services enable our dealer customers to manage their dealership data and operations, receive valuable consumer leads, compare various financing and leasing options and programs, sell insurance and other aftermarket products, analyze inventory, document compliance with certain laws and execute financing contracts electronically. We have also created efficiencies for financing source customers by providing a comprehensive digital and electronic contracting solution. In addition, we offer data and other products and services to various industry participants, including lease residual value and automobile configuration data.

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., Arkona, Inc., AutoStyleMart, Inc., Chrome Systems, Inc., Curomax Corp., DealerTrack Aftermarket Services, Inc., DealerTrack Canada, Inc., DealerTrack Digital Services, Inc., and DealerTrack, Inc.

We began our principal business operations in February 2001 with the introduction of our credit application processing product. Since then, we have added a significant number of dealers, financing sources and other participants to the network, successfully closed fourteen acquisitions and introduced several new products and services. As a result, we have increased our total addressable market by enhancing our offering of products and services, and expanding our network of relationships.

We maintain a website on the World Wide Web at [www.dealertrack.com](http://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](http://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.



## **Table of Contents**

### **Our Business**

Dealers 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 the financing sources to which he or she applied. The dealer then faxed the credit application to each financing source and awaited a series of return faxes. When a financing source 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 financing source via mail or overnight courier. The financing source then manually checked the contract for any errors or omissions and if the contract or ancillary documents were accurate and complete, the financing source paid the dealer for the assignment of the contract. The cumbersome nature of this process could limit the range of options available to consumers and delay the availability of financing. In addition, dealers consulting out-of-date paper program catalogues may not have been aware of all of the insurance programs and other aftermarket sales opportunities available to offer the consumer.

In an effort to address the inefficiencies in the traditional workflow processes, dealers have employed technology to manage their businesses. For example, dealers have made significant investments in dealership management system ( 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. For example, many DMS and CRM systems require additional manual entry of consumer information and manual tracking of consumer behavior at multiple points along the retail value chain. 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 dealer's systems.

In contrast to most dealer legacy systems, our web-based solutions are open and flexible. Our network improves efficiency and reduces processing time for dealers, financing sources, and other participants, and integrates the products and services of other information and service 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.

### **Our Solutions**

We believe our suite of integrated on-demand software and data solutions addresses many of the inefficiencies in the automotive retail value chain and delivers benefits to dealers, financing sources, aftermarket providers, and other service and information providers.

#### ***Dealers***

We offer franchised and independent dealers an integrated suite of on-demand solutions for Marketing and Prospecting, Sales, Finance and Insurance, Data and Reporting and General Management, 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 financing source 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 financing sources and obtain credit decisions quickly and efficiently.

We offer a comprehensive dealer management system (DMS), allowing dealers to manage functions across their entire business, and a complete suite of subscription products and services that complements our credit application processing product allowing dealers to integrate and better manage their business processes. We offer a product that provides a valuable pre-sales marketing and prospecting tool by providing a secure credit application on a dealer's website for a consumer to enter his or her own credit information. Another product allows the dealers to compare deal

configurations from multiple financing and leasing sources on a real-time basis. We also offer a product that allows dealers and consumers to complete finance contracts electronically, which a dealer can transmit to participating financing sources for funding, further streamlining the financing process and reducing transaction costs for both dealers and financing sources. Additionally, we offer products that allow dealers to consistently present to consumers the full array of insurance, aftermarket products and accessories options they offer. We give each dealership the ability to select the specific tools they need to reduce costs, increase profits and sell more vehicles.



## **Table of Contents**

### ***Financing Sources***

Our on-demand credit application processing and electronic contracting products eliminate expensive and time-consuming inefficiencies in legacy paper systems, and thereby decrease financing sources' costs of originating loans or leases. We also offer a contract-processing solution, which can provide financing sources 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 financing sources. We also believe that our credit application processing product enables our financing source customers to increase credit originations. Our network is configured to enable our financing source customers to connect easily with dealers with whom they can establish new business relations. We believe that financing sources that utilize our solution experience a significant competitive advantage over financing sources that rely on the legacy paper and fax processes.

### ***Aftermarket Providers***

Our 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. We expect that most, if not all, categories of aftermarket products and services will be available via the network, including vehicle recovery systems, extended service contracts, chemical coatings, and credit life and disability insurance. As of December 31, 2007, 33 aftermarket providers have agreed to join the DealerTrack Aftermarket Network.

### ***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 offer our third-party service and information providers a secure and efficient means of delivering their data to our dealer and financing source 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. Used car value guides, such as those provided by Black Book National Auto Research, or Black Book, Kelley Blue Book Co., Inc., or Kelley Blue Book, and the National Automotive Dealers' Association, or NADA, have been integrated with our web-based solutions, allowing them to develop incremental subscription revenue streams without increased publishing costs.

### ***Our Web-based Network***

Our web-based network is independent and does not give any one financing source preference over any other financing source. Each dealer sees its individualized list of available financing sources listed alphabetically, based on our proprietary matching process, and can transmit credit application information simultaneously to multiple financing sources that they select. Financing sources' responses to requests for financing through our network are presented back to the dealer in their order of response. We believe that this approach makes our network more appealing to both automotive dealers and independent financing sources than competitive financing alternatives that favor specific financing sources.

### ***Our Growth Strategy***

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

#### ***Expand Our Customer Base***

We intend to increase our market penetration by expanding our automotive dealer and financing source customer base through the efforts of our direct sales force. Although we currently have active relationships with approximately 90% of all franchised dealers, only 7% of the approximately 42,800 independent dealerships in the United States are

active in our network. We expect the launch of our independent dealer initiative will allow us to add more dealers to our network. While as of December 31, 2007 we had over 450 active financing source customers, we will focus on adding the captive financing affiliates of automotive manufacturers, as well as select regional banks, financing companies and other financing sources to our network. We also intend to increase the number of other service and information providers in our network by adding, among others, insurance and other aftermarket service and accessory providers. We have signed agreements with 33 aftermarket providers, which we anticipate will result in additional integrations in our network during 2008. In addition, we expect to increase the number of lead providers who distribute their vehicle sales leads through our network to dealers.

**Table of Contents**

***Sell Additional Products and Services to Our Existing Customers***

We believe that we are well-positioned to increase the number of products and services purchased by our existing customers. Many of our subscription-based products and services were recently introduced to our customers, and we believe there are opportunities to increase the sales of these products and services to dealers and financing sources. We believe that a significant market opportunity exists for us to sell additional products and services to the approximately 59% of our over 22,000 active dealer customers that utilize our credit application processing product, but have not yet purchased one or more of our subscription-based products or services. Similarly, the over 450 financing sources that utilize our credit application product represent a market opportunity for us to sell our electronic and digital contracting solution, which less than 10% of our financing source customers have implemented to date.

***Expand Our Product and Service Offerings***

We expect to expand our suite of products and services to address the evolving needs of our customers. We have identified a number of opportunities to leverage our network of relationships and our core competencies to benefit dealers, financing sources and other service and information providers. For example, we continue to expand our compliance solutions, most notably with the recent introduction of the DealerTrack RedFlags product, and expect to generate additional revenue through our expansion into the accessories market.

***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 network, improve our technology and/or increase our market share.

**Table of Contents****Our Products and Services**

We offer a broad suite of integrated solutions for the U.S. automotive retail industry that we believe improves our customers' operating efficiency in the pre-sales marketing and prospecting, sales, and finance and insurance stages of the automotive retail industry value chain. We typically charge for our products and services on either a transaction and/or subscription basis as indicated below.

<b>Stage</b>	<b>Products and Services</b>	<b>Subscription/Transaction</b>
<b>Marketing and Prospecting:</b>	Chrome Carbook Showroom®	Subscription
	PC Carbook®	Subscription
	Carbook Fleet Edition	Subscription
	Chrome Interactive Media	Transaction or Subscription
	Leads Network	Transaction
	WebsitePlus™	Subscription
<b>Sales:</b>	Credit Reports	Transaction
	SalesMake™	Subscription
	ALG Residual Value Guides	Subscription
<b>Finance and Insurance:</b>		
Financing:	BookOut	Subscription
	ToolKit™ (On-line credit application processing product)	Transaction
Aftermarket and Accessories Sales:	DealerTrack eMeni™	Subscription
	DealerTrack Aftermarket Network™	Transaction
	DealerTrack Accessory Solution	Subscription and Transaction
Contracting:	DealTransfe™	Subscription
	eContracting	Subscription and Transaction
	eDocs	Transaction
<b>Data and Reporting:</b>	Activity Reports™	Subscription
	ALG Data Services	Subscription and Transaction
	Chrome New Vehicle Data	Subscription
	Chrome VIN Search Data	Subscription
<b>General Management:</b>	DealerTrack Arkona DMS	Subscription
	DealWatch™	Subscription
	InventoryPro	Subscription

We generally charge dealers a monthly subscription fee for each of our subscription products and services. We charge a transaction fee to our financing source 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 a transaction fee to the aftermarket provider for each aftermarket contract executed and delivered from our network. The lead provider is charged a transaction fee for each sales lead purchased or distributed through our network.

***Marketing and Prospecting***

*Chrome Carbook Showroom*<sup>®</sup>, *PC Carbook*<sup>®</sup> 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. We charge our dealer customers and other industry participants subscription fees to use these products.

*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. Our customers are charged either a transaction or subscription fee for these products.

*Leads Network* Provides dealers with customer prospect leads from multiple providers. The Leads Network is a bid-based solution where dealers can control how many leads to buy, when to buy them, and how much to spend. Dealerships also have the ability to access leads from lead providers with whom they have current contractual relationships. Lead providers are charged a transaction fee for each lead purchased or distributed through the DealerTrack platform.

## **Table of Contents**

*WebsitePlus*™ WebsitePlus enables visitors to a dealer's website to submit credit application data online that the dealer can then access by logging onto the DealerTrack website. This product provides dealers with valuable consumer leads. It also expedites the sales and finance process because the dealer does not need to re-enter the consumer's credit information when the consumer enters the dealership. We charge our dealer customers subscription fees to use this product.

### ***Sales***

*Credit Reports* Dealers can electronically access a consumer's credit report prepared by each of Equifax Inc., Experian Information Solutions, Inc., First Advantage CREDCO and/or TransUnion LLC. The dealer can use the consumer's credit report to determine an appropriate automobile and financing package for that particular consumer. We charge our dealer customers or credit report provider's transaction fees each time a fee-bearing credit report is accessed by dealers.

*SalesMaker*™ SalesMaker is a profit management system enabling dealers to search the hundreds of current financing source 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 financing source program against their available inventory. We charge our dealer customers subscription fees to use this product. SalesMaker represents the integration and enhancement of our previous DeskLink and FinanceWizard products.

*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. Financing sources and dealers use ALG Residual Value Guides as the basis to create leasing programs for new and used automotive leases. We charge our financing source customers, dealer customers and other industry participant's subscription fees to use this product.

### ***Finance and Insurance***

*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. We charge our dealer customers subscription fees to use these products.

*ToolKit*™ ToolKit facilitates the online credit application process by enabling dealers to transmit a consumer's credit application information to one or multiple financing sources and obtain credit decisions quickly and efficiently. Generally, our dealer customers maintain active relationships with numerous financing sources. We offer each financing source 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. We charge our financing source customers transaction fees for credit application data that dealers transmit to them through this product.

*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. We charge our dealer customers subscription fees to use this product.

*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. We charge aftermarket providers transaction fees for each aftermarket product purchased that is transmitted by a dealer to the aftermarket provider through our network.

*DealerTrack Accessory Solution* The DealerTrack accessory solution provides dealerships with a tool to present and sell accessory products. Dealerships can also source products through the system and purchase those products for

their customers. Dealers pay a subscription fee for this product. We charge accessories providers transaction fees.

## **Table of Contents**

*DealTransfer*<sup>™</sup> DealTransfer permits dealers to transfer transaction information directly between select dealer management systems and our ToolKit product 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. We charge our dealer customers subscription fees to use this product.

*eContracting and eDocs* Our eContracting product allows dealers to obtain electronic signatures and transmit contracts and contract information electronically to financing sources 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 financing source. Together, eDocs and eContracting enable financing sources to create a 100% digital contract workflow. We charge our dealer customers subscription fees to use the eContracting product and our participating financing source customers pay transaction fees for each electronic or digital contract that we transmit electronically to them by eContracting or eDocs.

### ***Data and Reporting***

*ActivityReport*<sup>™</sup> ActivityReport provides dealers with reports about their financing and insurance operations such as summaries of applications by type, term, amount and income, summaries of application statuses and approval ratios by financing source, credit score range or user, summaries of applications, statuses and the contract booking ratios by financing source. We charge our dealer customers subscription fees to use this product.

*ALG Data Services* ALG is the primary provider of vehicle residual value data to automotive industry participants, including manufacturers, banks and other financing sources, desking software companies and automotive websites. We charge industry participants subscription or transaction fees for these data services.

*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 financing sources use the data in making financing decisions. We charge our dealer and financing source customers subscription fees to use this product.

*Chrome VIN Search Data* Chrome VIN Search Data assists a dealer in identifying an individual or group of automobiles by using vehicle identification numbers. Chrome VIN Search Data facilitates sales of a dealer's used automobile inventory by ensuring accurate descriptions and valuations for both consumer trade-ins and used automobile inventory. We charge our dealer customers subscription fees to use this product.

### ***General Management***

*DealerTrack Arkona DMS* The DealerTrack Arkona 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 (ERO), Vehicle Inventory, Contact Management, Payroll and Personnel Management. We charge our dealer customers subscription fees to use this product.

*DealWatch*<sup>™</sup> DealWatch 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. We charge our dealer customers subscription fees to use this product.

*InventoryPro* With InventoryPro, a dealership can evaluate sales and inventory performance for either new or used vehicles by make, model and trim, including information about unit sales, costs, days to turn, and front-end gross profit. The InventoryPro product reviews actual vehicles on the dealership lot and provides specific recommendations for vehicles that should be added or removed to improve a dealership's profitability and return on investment. It also enables dealers to connect with other member dealers to find target vehicles or identify dealers interested in buying overstock. We charge our dealer customers subscription fees to use this product.



## **Table of Contents**

### **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. This year we began offering them selected subscription products. For the year ended December 31, 2007, our Canadian operations generated approximately 10% of our revenue.

On February 1, 2007, we purchased all of the outstanding shares of Curomax Corporation of Canada and its subsidiaries pursuant to that certain Shares Purchase Agreement, made as of January 16, 2007, for a cash purchase price of approximately \$38.9 million (including direct acquisition and restructuring costs of approximately \$1.7 million). Under the terms of the shares purchase agreement, we have future contingent payment obligations of approximately \$2.3 million in cash to be paid out based upon the achievement of certain operational objectives over twenty-four months from the date of purchase. As of December 31, 2007, none of these contingencies were resolved. On January 1, 2008, Curomax Corporation was amalgamated into DealerTrack Canada, Inc.

### **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, 2007, 2006, and 2005 was \$9.8 million, \$9.2 million and \$5.6 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 financing source 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 a production site and a disaster recovery site. The production site for the DealerTrack credit application network is 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 Cybertrust Inc., 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.

**Table of Contents**

**Customer Development and Retention**

***Sales***

Our sales resources are focused on four primary areas: dealers, financing sources, 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. Financing source relationships are managed by a team that also focuses on adding more financing sources to our network and increasing the use of our eContracting and eDocs solution. Relationships with our aftermarket providers are managed by another 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 company.

***Training***

We believe that dealership employees often require specialized training to take full advantage of certain of our solutions. As a result, we have developed and made available extensive training for them. We believe that this 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 and data solutions for dealers, financing sources, aftermarket providers and other information and service 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, and the hosting of a corporate proprietary event;

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 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.

## **Table of Contents**

### **Customers**

Our primary customers are dealers and financing sources. Our network of financing sources includes the largest national prime, near prime and non-prime financing sources; regional and local banks and credit unions. As of December 31, 2007, we had over 450 connected financing sources and over 22,000 automotive dealers actively using our network, including approximately 90% of the franchised dealers in the United States. The subscription agreements with our dealers typically run for one to three years, with one-year automatic extensions, except for DealerTrack Arkona DMS, which has more flexible terms. Our initial agreements with our financing source customers typically run for two years, with one-year automatic extensions. No customer represented more than 10% of our revenue in the year ended December 31, 2007.

### **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 CUDL, Finance Express and RouteOne;

proprietary finance credit application processing systems, including those used and provided to dealers by American Honda Finance Corp. and Volkswagen Credit;

dealer management system providers, including ADP, Inc. and The Reynolds and Reynolds Company;

automotive retail sales deskings 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 JM&A Group, MenuVantage and the StoneEagle Group; and

providers of inventory analytic tools, including American Auto Exchange and First Look, LLC.

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, Ford Motor Credit Corporation, General Motors Acceptance Corporation and Toyota Financial Services, has relationships with these and other affiliated captive financing sources that are not part of our network. 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 financing sources, 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 Federal Reserve Board's Regulation P, 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.

## **Table of Contents**

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 financing source, 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 network conforms 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 financing source, an aftermarket provider or a dealer disclose consumer information provided through our network in violation of these laws, regulations or applicable privacy policies, 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 or provide notices in the event of an actual or suspected unauthorized access to or use of information contained within our system. 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 certain 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 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. While we believe we have structured our business so that we will not be considered to be a consumer reporting agency, we may in the future determine that it is necessary for us to become a consumer reporting agency due to changing legal standards, customer needs, or for competitive reasons. If we are deemed to be, or elect to treat ourselves as, a consumer reporting agency, our operating costs would increase, which could adversely affect our business, prospects, financial condition and results of operations.

### ***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, certain 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.

## **Table of Contents**

### ***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 most states. Case law has generally upheld the use of electronic signatures in commercial transactions and in consumer transactions where proper notice is provided and consumer consents to transacting 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 financing sources in our network use our 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. 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 financing source 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 financing source compliance.

### ***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***

The volume of new and used automobiles financed or leased, and the number of dealers serviced by our participating financing source customers, special promotions by automobile manufacturers and the level of indirect financing by captive finance companies not available in our network impact our business. Our business may be affected by these and other economical, seasonal and promotional trends in the indirect automotive finance market.

### ***Employees***

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As of December 31, 2007, we had approximately 1,000 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.



**Table of Contents****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:*

***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 web-based automotive finance credit application processors, the proprietary credit application processing systems of the financing source affiliates of automobile manufacturers, dealer management system providers, automotive retail sales deskings providers and vehicle configuration providers. DealerTrack also competes with warranty and insurance providers, as well as software providers, among others, in the market for dealer management systems, 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 RouteOne, CUDL and Finance Express.***

Our network of financing sources does not include the captive financing sources 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 financing sources that are not in our network. RouteOne was launched in November 2003, and officially re-launched in July 2004. A significant number of independent financing sources, including many of the independent financing sources in our network, are participating on the RouteOne credit application processing and routing portal. If RouteOne increases the number of independent financing sources 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, 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 RouteOne, our ability to sell additional products and services to, or earn transaction services revenue from, these customers could diminish. RouteOne has repeatedly approached each of our largest financing source customers seeking to have them join the RouteOne credit application processing and routing portal. Many of our financing source customers have engaged, are engaged and/or may in the future engage, in discussions with RouteOne regarding their participation on the RouteOne credit application processing and routing portal or may already have agreed to participate, or be participating, on this portal. In addition, CU Direct Corporation, through its CUDL portal, has directly targeted credit unions, which comprise a large number of our financing source customers. Finance Express has targeted the independent dealer channel which is an important initiative of ours.

***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 reducing the amount of indirect automobile financing transactions that we earn revenue on, the number of financing source 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 could be affected by negative trends in the economy, including negative trends

relating to the cost of energy and gasoline, and the subprime market. A reduction in the number of automobiles purchased by consumers could adversely affect our financing source and dealer customers and lead to a reduction in transaction volumes and in spending by these customers on our subscription products and services. Additionally, certain of our financing source 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 financing sources 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. Any such reductions in transactions or subscriptions could have a material adverse effect on our business, prospects, financial condition and results of operations.

**Table of Contents**

***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. Additionally, we integrate certain of our products 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 products 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, financing sources, 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.



## **Table of Contents**

*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:

selling additional products and services to our existing customers;

expanding our customer base;

expanding our product and service 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, financing sources and other service and information providers, offer a broad array of products and services, 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 financing source customers;

the timing, size and nature of our subscriptions and any cancellations thereof;



**Table of Contents**

automobile manufacturers or their captive financing sources offering special incentive programs such as discount pricing or low cost financing;

the timing of our acquisitions of businesses, products and services;

unpredictable sales cycles;

product and price competition regarding our products and services and those of our participating financing sources;

changes in our operating expenses;

the timing of introduction and market acceptance of new products, services or product enhancements by us or our competitors;

foreign currency fluctuations; and

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 and Consumer Report Information Disposal Rule, as well as the Fair Credit Reporting Act ( FCRA ). If we, or a financing source 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.