

DealerTrack Holdings, Inc.  
Form 10-K  
February 22, 2012

**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, 2011**

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** **52-2336218**  
*(State or other jurisdiction of incorporation or organization)* *(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** **The NASDAQ Stock Market, LLC**  
*(Title of each class)* *(Name of exchange on which registered)*  
**Securities registered pursuant to Section 12(g) of the Act: None**

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

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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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ 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:

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 ☒

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$949 million (based on the closing price for the registrant's common stock on the NASDAQ Global Market of \$22.95 per share).

As of February 1, 2012, 41,945,856 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, 2011. Portions of such proxy statement are incorporated by reference into Part III of this Annual Report on Form 10-K.

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## **PART I**

### **Item 1. Business**

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

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

### **Overview**

DealerTrack’s web-based software solutions and services enhance efficiency and profitability for all major segments of the automotive retail industry, including dealers, lenders, OEMs, third party retailers, agents and aftermarket providers. DealerTrack operates the largest online credit application network in the United States and Canada.

DealerTrack’s Dealer Management System (DMS) provides dealers with easy-to-use tools and real-time data access to enhance their efficiency. DealerTrack’s Inventory solution offerings provide vehicle inventory management and merchandising solutions to help dealers drive higher in-store and online traffic with state-of-the-art, real-time listings — designed to accelerate used-vehicle turn rates and increase dealer profits. DealerTrack’s Sales and Finance solutions allow dealers to streamline the entire sales process as they structure deals from a single integrated platform. Our Compliance offering helps dealers meet legal and regulatory requirements, and protect their assets. DealerTrack also offers processing solutions for the automotive industry, including digital retailing, electronic motor vehicle registration and titling applications, paper title storage, and digital document services.

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 DealerTrack AAX, Inc., DealerTrack Aftermarket Services, Inc., DealerTrack Canada, Inc., DealerTrack Digital Services, Inc., DealerTrack, Inc., DealerTrack Processing Solutions, Inc., FDI Computer Consulting, Inc., General Systems Solutions, Inc., and DealerTrack Systems, Inc.

We maintain a website 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 (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, D.C. 20549.

On January 1, 2012, we entered into a joint venture, “Chrome Data Solutions,” into which we contributed substantially all the assets and liabilities of our wholly-owned subsidiary, Chrome Systems, Inc. For further information, please refer to Note 18 in the accompanying notes to the consolidated financial statements included in this Annual Report on

Form 10-K.

## **Our Market**

Before DealerTrack entered the market with its online credit application product, dealers and lenders traditionally relied upon fax and mail delivery methods for processing their offerings. This method produced lengthy processing times and increased the cost of assisting the consumer to obtain financing. Legacy paper systems required the consumer to fill out a paper credit application for each of the lenders to which he or she applied. The dealer then faxed the credit application to each lender and awaited a series of return faxes. When a lender approved the consumer's credit application, the consumer manually signed a paper finance or lease contract with the dealer, who then delivered it with ancillary documents to the lender via mail or overnight courier. The lender then manually checked the contract for any errors or omissions. If the contract or ancillary documents were accurate and complete, the lender paid the dealer for the assignment of the contract. The cumbersome nature of this process limited the range of options available to consumers and delayed the availability of financing.

The lack of an integrated electronic workflow within a dealer's various technology solutions has also created inefficiencies. For example, dealers have made significant investments in DMS software to streamline their back office functions, such as accounting, inventory, communications with manufacturers, parts and service. They have also 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 additional inefficiencies. These inefficiencies slow the sales and customer management process, as different and sometimes contradictory information is recorded on separate systems.

We believe our solution set for dealers is the industry's most comprehensive – providing value for every department. DealerTrack's low-cost, high-value web-based solutions are open and flexible. We improve efficiency and reduce processing time for dealers, lenders, and other participants. We also integrate the products and services of third-party service and information providers, such as credit reporting agencies and aftermarket providers.

Our online credit application processing and electronic contracting products eliminate expensive and time-consuming inefficiencies in legacy paper systems, and thereby decrease lenders' costs of originating loans or leases. We also offer a contract-processing solution, which can provide lenders with retail automotive contracts and related documents in a digital or electronic format.

With the acquisition of triVIN Holdings, Inc., now known as DealerTrack Processing Solutions, Inc. (DealerTrack Processing Solutions), we increased our product offerings by adding a leading provider of automobile title and lien management services to lenders and vehicle registration services to automobile dealers.

We primarily generate revenue on either a transaction or subscription basis, depending on the customer and the product or service provided.

### **Our Customers**

Our primary customers are dealers and lenders. DealerTrack uses a Software-as-a-Service (SaaS) model, which we believe is a superior method for delivering products and services to these customers. Our customers can access our highly specialized applications on-demand, avoiding the expense and difficulty of installing and maintaining them independently.

### ***Dealers***

We offer franchised and independent dealers a suite of high-value DMS, Sales and Finance, and Inventory solutions that significantly shorten financing processing times, increase efficiencies across the dealership, and allow dealers to spend more time selling automobiles. The subscription agreements with our dealers typically run for one to three years, with one-year automatic extensions, except for our DMS and Inventory agreements, which generally have more flexible terms. The trend in the industry is towards shorter term contracts, and in certain cases, month-to-month contracts.

Our automated, web-based credit application processing product allows automotive dealers to originate and route their consumers' credit application information. This product has eliminated the need to fax a paper application to each lender to which a consumer applies for financing. Once a dealer enters a consumer's information into our system, the dealer can distribute the credit application data electronically to one or multiple lenders and obtain credit decisions quickly, efficiently and at no charge.

We offer a comprehensive DMS to help dealers manage functions across their entire business, and a complete suite of other subscription solutions that complement our credit application processing product, allowing dealers to integrate and better manage their business processes. Additionally, DealerTrack Inventory solutions help dealers with inventory management, vehicle appraising, pricing, merchandising, and digital marketing.

Our Sales and Finance solutions streamline the vehicle and aftermarket sales processes, including allowing dealers and consumers to complete finance contracts electronically. With contracts completed electronically, dealers can transmit them to participating lenders for funding, further streamlining the financing process and reducing transaction costs for both dealers and lenders. As part of our Sales and Finance solution, we offer a Compliance solution that helps dealers comply with Red Flags and other governmental regulations, and delivers compliance reporting

functionality. DealerTrack also provides electronic and paper solutions to dealers for registering vehicles, eliminating the need to transact at the department of motor vehicles. We give each dealership the ability to select the specific tools they need to reduce costs, increase profits and sell more vehicles.

### *Lenders*

Our network of lenders includes national and regional lenders, prime, near prime and non-prime lenders, local banks, captive lenders and credit unions. Our agreements with our lender customers are typically transactional-based and run for two years, with one-year automatic extensions.

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

DealerTrack also provides electronic and paper title management and collateral solutions, allowing lenders to outsource both manual and physically intensive tasks previously performed in house.

### ***Aftermarket Providers***

The DealerTrack Aftermarket Network™ gives dealers access to real-time contract rating information and quote generation, and provides digital contracting for aftermarket products and services. The aftermarket sales and contracting process was previously executed through individual aftermarket providers' websites or through a paper-based process which was 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.

### ***OEMs***

DealerTrack DMS streamlines manufacturer interactions by integrating warranty claims, part orders and returns, and financial statement submission. We offer vehicle manufacturers comprehensive technology and consulting solutions to improve online interactions and awareness, increase vehicle and accessories sales, and streamline interactions with franchised dealerships.

### ***Other Service and Information Providers***

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

### ***Our Web-Based Credit Application Networks***

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

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

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

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

We intend to increase our market penetration by expanding our automotive dealer and lender customer base through the efforts of our direct sales force. As of December 31, 2011, we had more than 1,100 active lender customers in the United States. Our focus is on adding additional select regional banks, credit unions, financing companies and the captive financing affiliates of automotive manufacturers to our network. We also intend to increase the number of other service and information providers in our networks by adding, among others, insurance and other aftermarket service providers. Additionally, we have increased our installation capacity for our DMS business and expanded our Inventory solutions offerings through the acquisition of eCarList in 2011, which expanded our customer



base in these areas.

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

We believe that a significant market opportunity exists for us to sell additional products and services to the more than 17,000 dealer customers who utilize our credit application processing product, or have purchased one or more of our subscription-based products or services. Similarly, the more than 1,100 lenders that utilize our U.S. credit application processing network represent a market opportunity for us to sell our electronic and digital contracting solutions, as well as our collateral management solutions.

***Expand Our 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, lenders and other service and information providers. An important current focus is to develop significant new workflow integrations between our solutions that will lead to greater productivity and efficiency for our customers, leading to lower costs and higher profitability.

***Pursue Acquisitions and Strategic Alliances***

We have augmented the growth of our business by completing strategic acquisitions including, most recently, our acquisitions of DealerTrack Processing Solutions, Inc., on January 31, 2011, and eCarList, LLC, on July 1, 2011. In executing our acquisition strategy, we have focused on identifying businesses that we believe will increase our market share or that have products, services, and technology that are complementary to our product and service offerings. We believe that our success in completing these acquisitions and integrating them into our business has allowed us to maintain our leadership position in the industry, enhance our network of relationships, and accelerate our growth. We intend to continue to grow and advance our business through acquisitions and strategic alliances. We believe that acquisitions and strategic alliances will allow us to enhance our product and service offerings, sell new products using our networks, strengthen technology offerings, reduce operating costs and/or increase our market share.

Solutions	Products and Services	Revenue Type
DMS solutions:	<ul style="list-style-type: none"> <li>• DealerTrack DMS</li> </ul>	<ul style="list-style-type: none"> <li>• Subscription and Other</li> </ul>
Sales and Finance solutions:	<ul style="list-style-type: none"> <li>• Credit Application Network</li> <li>• Credit Bureau Access Platform</li> <li>• BookOut</li> <li>• DealerTrack Compliance</li> <li>• DealerTrack eContracting <sup>TM</sup></li> <li>• DealTransfer<sup>®</sup></li> <li>• SalesMaker <sup>TM</sup></li> <li>• DealerTrack eMenu<sup>TM</sup></li> <li>• DealerTrack Aftermarket Network<sup>TM</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Transaction</li> <li>• Transaction</li> <li>• Subscription</li> <li>• Subscription and Transaction</li> <li>• Subscription and Transaction</li> <li>• Subscription</li> <li>• Subscription</li> <li>• Subscription</li> <li>• Transaction</li> </ul>
Inventory solutions:	<ul style="list-style-type: none"> <li>• DealerTrack eCarList</li> <li>• DealerTrack AAX<sup>®</sup></li> <li>• BookOut</li> </ul>	<ul style="list-style-type: none"> <li>• Subscription, Transaction and Other</li> <li>• Subscription, Transaction and Other</li> <li>• Subscription</li> </ul>
Processing solutions:	<ul style="list-style-type: none"> <li>• DealerTrack OLR<sup>®</sup></li> <li>• DealerTrack RegUSA<sup>®</sup></li> <li>• DealerTrack Electronic Lien &amp; Title (ELT)</li> <li>• DealerTrack Vehicle Title and Collateral Administration</li> <li>• DealerTrack eDocs</li> </ul>	<ul style="list-style-type: none"> <li>• Transaction</li> <li>• Transaction</li> <li>• Transaction</li> <li>• Transaction</li> <li>• Transaction and Other</li> </ul>

### ***DMS solutions:***

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

***Sales and Finance solutions:***

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

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

***DealerTrack Compliance*** — DealerTrack's Compliance solution provides automotive dealers with a safe and reliable method to sign, store and protect customer and financing activity at the dealership. It also provides safeguards, such as limited access to sensitive information based on a user's role and permission, as well as Red Flags and U.S. Treasury's OFAC (Office of Foreign Assets Control) compliance checks, to help reduce compliance risk by handling every customer financing deal consistently.

***DealerTrack eContracting*** — Our DealerTrack eContracting product allows dealers to obtain electronic signatures and transmit contracts and contract information electronically to lenders that participate in eContracting. eContracting increases the speed of the automotive financing process by replacing the cumbersome paper contracting process with an efficient electronic process.

***DealTransfer®*** — DealTransfer permits dealers to transfer transaction information directly between select dealer management systems and our DealerTrack credit application network. This allows dealers to avoid reentering transaction information once the information is on their system.

***CreditOnline™*** — CreditOnline allows visitors to a dealership's website to securely submit personal and confidential credit application data online, which the dealer can then access by logging onto the DealerTrack credit application network. All credit application data completed online by the customer will appear alongside the information the dealer entered with DealerTrack, eliminating the need to re-enter personal information into the system when a customer arrives at the dealership.

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

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

*DealerTrack Aftermarket Network* <sup>TM</sup> — 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, both dealers and aftermarket providers benefit from improved accuracy and elimination of duplicate data entry.

***Inventory solutions:***

*DealerTrack eCarList* – DealerTrack eCarList is an inventory management and distribution platform for the automotive retail market, enabling dealers to appraise, price and merchandise vehicle inventory online in real-time. The DealerTrack eCarList platform combines inventory management, website and digital marketing tools and services to enrich access to, and presentation of, inventory data and vehicle descriptions across marketing mediums in a complete and uniform fashion. In addition, the suite of DealerTrack eCarList tools and solutions deliver comprehensive vehicle retail pricing directly to a dealership's desktop or mobile device, helps dealers improve search engine marketing and optimization, and enhances dealer's websites by delivering rich and robust inventory and market data.

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

We are in the process of integrating our two primary inventory products into one comprehensive inventory management and merchandising suite.

***Processing solutions:***

**Registration**

*DealerTrack OLR<sup>®</sup>* – DealerTrack Online Registration System (OLRS) is a software-assisted service that provides dealers a quick and easy do-it-yourself version of department of motor vehicle processing. The service, which allows for online, real-time motor vehicle registration and/or titling directly from an authorized retailer's office is currently available in California, Connecticut, Illinois, Indiana, Maryland, Massachusetts, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Virginia and Wisconsin.

*DealerTrack RegUSA<sup>®</sup>* – DealerTrack RegUSA is a convenient way to handle cross-border vehicle transactions for all 50 states. RegUSA processes vehicle deals for all states, ensuring that the out-of-state registration and titling, including liens, are completed in an accurate and timely fashion. eRegUSA is an extension of this core service offering, and provides subscription-based services for estimating state motor vehicle fees and sales tax and electronically populating many motor vehicle forms.

**Collateral Management**

*DealerTrack Electronic Lien & Title (ELT)* – We pioneered the ELT concept and are the only provider offering the administration and management of ELT in each of the current eligible states. DealerTrack's ELT offering can be implemented as a standalone solution or as part of a single integrated platform with the DealerTrack Title and Collateral Administration offering and services.

*DealerTrack Title and Collateral Administration* – DealerTrack's Title and Collateral Administration is a comprehensive title management solution that includes lien perfection monitoring, paper and electronic title management, imaging and storage of paper titles, and discrepancy identification.

**Digital**

*DealerTrack eDocs* — Our eDocs digital contract processing service receives paper-based contracts from dealers, digitizes the contracts and submits them electronically to the appropriate lender. Services also include data entry and data verification.

**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. Presently, we are also offering them select subscription products. For the years ended December 31, 2011, 2010 and 2009, our Canadian operations generated approximately 9%, 12% and 11% of our net revenue, respectively.

**Technology**

Our technology platform is robust, flexible and extendable and is designed to be integrated with a variety of other technology platforms. We believe our open architecture is fully scalable and designed for high availability, reliability and security. Product development expense for the years ended December 31, 2011, 2010 and 2009 was \$14.7 million, \$13.4 million and \$14.0 million, respectively. Our technology includes the following primary components:

***Web-Based Interface***

Our customers access the majority of 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 for each application. We can easily add new functionality and deliver new products to our customers by updating our software on a regular basis.

***Partner Integration***

We utilize a variety of various integration technologies to facilitate the interfaces with our many partners. We are a member of the Standards for Technology in Automotive Retail and the American Financial Services Association, and are committed to supporting published standards as they evolve.

***Infrastructure***

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

## ***Security***

DealerTrack offers a secure, reliable and trusted service and has built our security program utilizing a “Defense in Depth” security strategy. Our multi-layered approach is designed to protect DealerTrack’s applications, physical infrastructure and network infrastructure. The DealerTrack website environments adhere to high security standards and deploy a multi-tiered firewall infrastructure that allows for highly controlled data segmentation. DealerTrack also deploys intrusion detection systems to alert of potential network security threats. Our firewalls and intrusion detection systems are both managed and monitored continuously by an independent security management company. Our internet communications are encrypted using https/SSL 128-bit encryption. We also utilize a commercial software solution to securely manage user access to our applications. Incoming traffic is authenticated before it is authorized to access our website. Once a user has been authorized, access control to specific functions within the site is performed by the application. Our access control system includes the granting and revocation of user permissions to functions on the website. DealerTrack’s security program includes having external and internal vulnerability assessments performed on a regular basis to test for security vulnerabilities. We have implemented patch management and server hardening processes to protect against security vulnerabilities inherent in many industry-standard software, systems and applications. DealerTrack uses a leading anti-virus solution to protect its servers and workstations.

DealerTrack maintains a certification from Cybertrust, Inc. (Verizon Business Services), a leading industry security certification body. This certification program entails a comprehensive evaluation of our security program, including extensive testing of our websites’ perimeter defenses.

## **Customer Development and Retention**

### ***Sales***

Our resources are focused on four primary customer groups: dealers, lenders, OEMs 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. For dealer sales, we focus on selling our subscription-based products and services to dealers through field sales and telesales efforts and also support the implementation of subscription-based and transaction-based products for dealers. Lender relationships are managed by a team that also focuses on adding more lenders to our DealerTrack credit application network and increasing the use of our eContracting, eDocs, and collateral management offerings. Relationships with automotive manufacturers are managed by a dedicated OEM relationship management team that is also responsible for introducing our solutions to the automotive manufacturers. Relationships with other providers are managed across various areas of our organization.

### ***Training***

We believe that training is important to enhancing the DealerTrack brand and reputation and increasing utilization of our products and services. Training is conducted via telephone, the Internet, and in person at dealerships. In training our dealers, we emphasize utilizing our network to help them increase profitability and efficiencies. Training and support is included within certain subscription services and is also provided, in certain cases, as an optional paid service.

### ***Marketing***

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

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

#### **Customer Service**

We believe superior customer support is important in 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 problems or issues. We provide telephone support, e-mail support and online information support as well as consulting services about our products and services. Our customer service group handles general customer inquiries, such as questions about resetting passwords, how to subscribe to products and services, the status of product subscriptions, and how to use our products and services. Support 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.



## Competition

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

- web-based automotive finance credit application processors, including AppOne, CUDL, Finance Express, Open Dealer Exchange, and RouteOne;
- proprietary finance credit application processing systems, including those used and provided to dealers by American Honda Finance Corp., BMW Financial Services, and Volkswagen Credit;
- dealer management system providers, including ADP, Inc., Auto/Mate Dealership Systems, AutoSoft, Inc., and The Reynolds and Reynolds Company;
- automotive retail sales desking providers, including ADP, Inc., and Market Scan Information Systems, Inc.;
- providers of vehicle electronic registration solutions, including AVRS, CVR, ELS, MVSC, and TitleTec;
- collateral management service providers, including Assurant, PDP Group, and VINtek;
- providers of services related to aftermarket products, including MenuVantage and the StoneEagle Group;
- providers of inventory analytic tools, including eLEAD, First Look, LLC, Red Bumper LLC, vAuto, Inc., and vinSolutions; and
- providers of compliance solutions; including Compli, CREDCO, RouteOne, and the three credit reporting agencies (Equifax, Experian, and TransUnion).

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 to new technologies and changes in customer needs. In particular, RouteOne, a joint venture formed and controlled by Chrysler Financial Corporation (CFC), Ford Motor Credit Corporation (FMCC), Ally Financial (Ally) (formerly GMAC) and Toyota Financial Services (TFS), has relationships with FMCC and TFS and other affiliated captive lenders that are not part of our network, and had an exclusive relationship with Ally until February 10, 2010, when we entered into a strategic relationship with Ally. Ally continues to accept credit applications through RouteOne. Additionally, in January 2009, ADP and Reynolds announced a joint venture, Open Dealer Exchange, which may have the ability to build on its joint venture partner's relationships in providing DMS software to approximately 80% of U.S. franchised dealers. Our ability to remain competitive will depend to a great extent upon our ability to execute our growth strategy, as well as our ongoing performance in the areas of product development and customer support.

## Government Regulation

The indirect automotive financing and automotive retail industries are subject to extensive and complex federal and state regulations. Our customers, such as banks, finance companies, savings associations, credit unions and other lenders, and automotive dealers, operate in markets that are subject to rigorous regulatory oversight and supervision.

Our customers must ensure that our products and services work within the extensive and evolving regulatory requirements applicable to them, including those under the Consumer Credit Protection Act, (CCPA), the Gramm-Leach-Bliley Act (the GLB Act), the Fair and Accurate Credit Transactions (FACT) Act of 2003, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the Federal Reserve Board's regulations relating to consumer protection and privacy, the Interagency Guidelines Establishing Information Security Standards, the Interagency Guidance on Response Programs for Unauthorized Access to Customer Information and Customer Notice, the Federal Trade Commission's (FTC) Privacy Rule, Safeguards Rule, the 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. On July 21, 2011, authority to promulgate rules and regulations under 18 federal consumer protection laws, including the CCPA, GLB, parts of the FACT Act and new authority under the Dodd-Frank Act, was transferred to the Consumer Financial Protection Bureau (CFPB), an independent agency established by the Dodd-Frank Act and funded by the Federal Reserve Board. The CFPB has authority to issue new regulations, including regulations prohibiting unfair, deceptive, and abusive trade practices relating to consumer financial services. The Federal Trade Commission continues to have supervisory authority over most franchised dealers, but the CFPB has supervisory authority over independent and buy-here-pay-here dealers as well as financial institutions with assets in excess of \$10 billion and other "larger non-depository participants" in the consumer financial services market. The extent of this authority and the substance of new rules are unclear at the present time. All our dealers and financing clients such as banks, finance companies and captives will be subject to the substantive regulations published by the CFPB and many financing clients will be subject to the CFPB's supervisory authority on consumer finance issues if their assets exceed \$10 billion or they are deemed a "larger, non-depository participant" for consumer financial services.

The CFPB may subject us to supervision and examination by the CFPB as a “service provider.” Similar to our clients, we may also be subject to changes in existing consumer financial protection law rulemaking by the CFPB. The Dodd-Frank Act also streamlined the administrative procedures for the FTC to promulgate unfair and deceptive practices regulations for the retail automotive industry. The FTC held a series of hearings in 2011 on auto financing practices and is expected to issue regulations in 2012. It is possible that the FTC will issue regulations that may affect us and the products and services we offer to dealers.

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

### ***Consumer Privacy and Data Security Laws***

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

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

Legislation is pending on the federal level and in most states that could impose additional duties on us relating to the collection, use or disclosure of consumer information, as well as obligations to secure that information. For example, Massachusetts and Nevada have issued specific security requirements for data of their residents. Currently, 46 states and the District of Columbia have laws mandating notices to affected consumers in the event of an actual or suspected unauthorized access to or use of information contained within our systems. The U.S. Congress is considering legislation that would provide for a uniform national notice policy for security breaches. The FTC and federal banking regulators have also issued regulations requiring regulated financial institutions to obtain certain assurances and contractual protections relating to the security and disposal of information maintained by service providers such as DealerTrack.

While we believe our current business model and product offerings are 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 in our current products and to develop additional revenue streams in the future.

### ***Fair Credit Reporting Act (FCRA)***

The FCRA imposes limitations on the collection, distribution and use of consumer report information and imposes various requirements on providers and users of consumer reports and any information contained in such reports. Among other things, the FCRA limits the use and transfer of information that qualifies as a consumer report, and imposes requirements on providers of information to credit reporting agencies and resellers of consumer reports with respect to ensuring the accuracy and completeness of the information and assisting consumers who dispute

information in their consumer reports or seek to obtain information involving theft of their identity. The communication or use of consumer report information in violation of the FCRA could, among other things, result in a provider of information or reseller of consumer reports being deemed a consumer reporting agency, which would subject the provider or reseller to all of the compliance requirements applicable to consumer reporting agencies contained in the FCRA and applicable regulations. Willful violations of the FCRA can result in statutory and punitive damages. A FACT Act regulation, the Risk-Based Pricing Rule, requires creditors to give risk-based pricing notices to certain consumers whose credit score precluded them from getting the best terms for credit or alternatively to provide a credit score disclosure notice to all credit applicants.

### ***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, Vermont requires consumers to "opt-in" to allow affiliate information sharing. Almost all states permit consumers to "freeze" their credit bureau files under certain circumstances and the three national credit bureaus (Equifax, Experian and TransUnion) now give this right to all customers. Our automotive dealer customers remain subject to the laws of their respective states in such matters as disclosures, permissible fees, consumer protection and unfair and deceptive trade practices. Recently, certain states have passed laws requiring specific security protections for maintaining or transmitting the personal information of state residents.

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

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

### ***Internet Regulation***

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

### ***Intellectual Property***

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

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

in part by requiring confidentiality agreements from our vendors, corporate partners, employees, consultants, advisors and others.

## Industry Trends

We are impacted by trends in both the automotive industry and the credit finance markets. Our financial results are impacted by trends in the number of dealers serviced and the level of indirect financing and leasing by our participating lender customers, special promotions by automobile manufacturers and the level of indirect financing and leasing by captive finance companies not available in our network. In March 2011, the earthquake and subsequent tsunami in Japan resulted in supply disruptions of both parts and Japanese imports, which caused a notable slowdown in the new car seasonally adjusted annual rate in the second quarter and part of the third quarter. The supply disruption recovered during the fourth quarter and the seasonally adjusted annual sales rate exceeded the market levels prior to these events. The number of lending relationships between the various lenders and dealers available through our network continues to increase as the number of dealers has stabilized and lenders are deploying more capital to auto finance. Purchases of new automobiles are typically discretionary for consumers and have been, and may continue to be, affected by negative trends in the economy, including the cost of energy and gasoline, the availability and cost of credit, the declining residential and commercial real estate markets, reductions in business and consumer confidence, stock market volatility and increased unemployment. 2008 and 2009 were the worst years for selling vehicles since 1982 and while automobile sales increased in 2011 and 2010 over 2009, overall sales remain low as compared to historical levels. As a result of reduced car sales and the general economic environment, two major automobile manufacturers, Chrysler and General Motors, filed and then emerged from bankruptcy. This has had a significant impact on their franchised dealers both in terms of dealer closings and the financial viability of their remaining dealers. Together, these factors have meaningfully impacted our transaction volume and subscription cancellations compared to historical levels.

The economic downturn resulted in automotive dealer consolidation and the number of franchised automotive dealers declined significantly in 2009 and 2010. Based on data from the National Automobile Dealers Association, the number of franchised dealers declined, by approximately 2,300, or 11%, in 2009 and 2010. A reduction in the number of automotive dealers reduces the number of opportunities we have to sell our subscription products.

Volatility in our stock price, declines in our market capitalization and material declines in revenue and profitability could result in impairments to the carrying value of our goodwill, deferred tax assets and other long-lived assets. Additionally, we may be required to impair some of our goodwill or long-lived assets if these conditions worsen for a period of time.

## **Employees**

As of December 31, 2011, we had approximately 1,900 employees. None of our employees are represented by a labor union. We have not experienced any work stoppages and believe that our relations with our employees are good.

## **Item 1A. Risk Factors**

*You should carefully consider the following risk factors, as well as the more detailed descriptions of our business elsewhere in this Annual Report on Form 10-K. Our business, prospects, financial condition or results of operations could be materially and adversely affected by the following:*

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

Economic trends that negatively affect the automotive retail industry or the indirect automotive financing industry may adversely affect our business by further reducing the amount of indirect automobile financing transactions that we earn revenue on, the number of lender or automotive dealer customers that subscribe to our products and services or money that our customers spend on our products and services. Purchases of new automobiles are typically discretionary for consumers and have been, and may continue to be, affected by negative trends in the economy, including the cost of energy and gasoline, the availability and cost of credit, the declining residential and commercial real estate markets, reductions in business and consumer confidence, stock market volatility and increased unemployment. A reduction in the number of automobiles purchased by consumers could continue to adversely affect our lender and dealer customers and lead to a reduction in transaction volumes and in spending by these customers on our subscription products and services. While new car sales increased in 2011, they remain below historical levels. Additionally, a certain number of our lender customers are dependent on continued access to the capital markets, in order to fund their lending activities. These negative trends may result in our lenders further reducing the number of automobile dealers that they service or the number of contracts that they purchase which could result in a reduction in the number of credit applications that are processed through our network. Additionally, due to the economic downturn, there has been automotive dealer consolidation and the number of franchised automotive dealers declined in 2009 and 2010. These declines have stabilized in 2011 as there has been no significant change in dealers during the year. To the extent that these dealers have subscription products, the consolidation will result in cancellation of those products. Further, a reduction in the number of automotive dealers reduces the number of opportunities we have to sell our subscription products. Additionally, dealers who close their businesses may choose to not pay those amounts owed to us, resulting in an increase in our bad debt.

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

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

Competition in the automotive retail technology industry is intense. The automotive retail technology industry is highly fragmented and is served by a variety of entities, including DMS providers, web-based automotive finance

credit application processors, the proprietary credit application processing systems of the lender affiliates of automobile manufacturers, automotive retail sales desking providers and vehicle configuration providers. DealerTrack also competes with warranty and insurance providers, as well as software providers, among others, in the market for DMS, menu-selling products and services, compliance products, electronic registration solutions, and inventory management. 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.***

ADP, Inc. and Reynolds and Reynolds, the two largest providers of DMS systems, have formed Open Dealer Exchange as a joint venture to compete in online credit application processing and routing. ADP and Reynolds and Reynolds are also the owners of CVR, a joint venture that competes in the electronic registration solution space. Open Dealer Exchange plans to leverage its owners' penetration of the DMS space to better integrate the loan origination process into the dealer's transactional, point-of-sale system, thereby giving them a competitive advantage. Additionally, our network of lenders does not include the captive lenders affiliated with Ford Motor Company or Toyota Motor Corporation, two of the owners of RouteOne. This gives RouteOne the ability to offer its dealers access to captive or other lenders that are not in our network. A significant number of independent lenders, including many of the independent lenders in our network, are participating on the RouteOne credit application processing and routing portal. If either Open Dealer Exchange and/or RouteOne increases the number of independent lenders on its credit application processing and routing portal and/or offers products and services that better address the needs of our customers or offer our customers a lower-cost alternative, and/or our dealer customers more integrated systems, our business, prospects, financial condition and results of operations could be materially adversely affected. In addition, if a substantial amount of our current customers migrate from our network to Open Dealer Exchange or RouteOne, our ability to sell additional products and services to, or earn transaction services revenue from, these customers could diminish.

We believe that both Open Dealer Exchange and RouteOne have repeatedly approached certain of our largest lender customers seeking to have them join their credit application processing and routing portal. In addition, CU Direct Corporation, through its CUDL portal, has directly targeted credit unions, which comprise a large number of our lender customers, and Open Dealer Exchange has recently announced an integration agreement with CUDL. Finance Express and AppOne have targeted lenders that serve the independent dealer channel.

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

Currently, some software vendors, including some of our competitors, have designed their software systems in order to make it difficult to integrate with third-party products and services such as ours and others have announced their intention to do so. Some software vendors also use financial or other incentives to encourage their customers to purchase such vendors' products and services. These obstacles 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. While we have agreements in place with various third-party software providers to facilitate integration between their software and our network, 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 solutions and services with other third parties' software programs. These third parties may design or utilize their software in a manner that makes it more difficult for us to continue to integrate our solutions and services in the same manner, or at all. These developments could have a material adverse effect on our business, prospects, financial condition and results of operations.

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

*Our systems may be subject to security breaches.*

Our success depends on the confidence of dealers, lenders, the major credit reporting agencies and our other network participants in our ability to transmit confidential information securely over the Internet and operate our computer systems and operations without significant disruption or failure. We transmit substantial amounts of confidential information, including non-public personal information of consumers, 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