

Dealertrack Technologies, Inc
Form 10-K
February 26, 2013

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, 2012

or

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

Commission file number 000-51653

DEALERTRACK TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	52-2336218
<i>(State or other jurisdiction of incorporation or organization)</i>	<i>(I.R.S. Employer Identification Number)</i>

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
<i>(Title of each class)</i>	<i>(Name of exchange on which registered)</i>

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 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

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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, 2012, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$1,219 million (based on the closing price for the registrant's common stock on the NASDAQ Global Market of \$30.11 per share).

As of February 1, 2013, 43,054,936 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, 2012. 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 Technologies, 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 networks in the United States and Canada. We believe Dealertrack delivers the industry’s most comprehensive solution set for automotive retailers, including:

Dealer Management solutions, which provide independent and franchised dealers with a powerful dealer management system (DMS) featuring easy-to-use tools and real-time data access to enhance their efficiency;

Sales and F&I solutions, which allow dealers to streamline the in-store and online sales processes as they structure deals from a single integrated platform;

Inventory solutions, which deliver vehicle inventory management and transportation offerings to help dealers accelerate used-vehicle turn rates and assisting with the facilitation of vehicle delivery;

Processing solutions, which include online motor vehicle registration, lien and titling applications and services, and collateral management services;

Digital Retailing solutions, which integrate advanced vehicle search, pricing and payment tools directly into a retailer's website; and

Interactive solutions, which deliver digital marketing and website offerings to assist dealers in achieving higher lead conversion rates by helping optimize the maximum amount of shoppers to their websites.

Effective November 7, 2012, DealerTrack Holdings, Inc. amended its charter to change its name to Dealertrack Technologies, Inc. This change was approved by the stockholders at our annual meeting of stockholders on June 20, 2012. The company and its solutions are now positioned around a single brand – Dealertrack Technologies – helping to represent our position as a leading driver of innovation and progress across the automotive retail industry. The new brand will reinforce consistency and unity across Dealertrack's comprehensive suite of web-enabled solutions for automotive dealers, lenders, OEMs and third-party retailers.

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*. 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*. 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 or by calling 1-800-SEC-0330.

Our Market

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.

Before we entered the market with our 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. The legacy paper process 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 integrated electronic workflows within a dealer's various technology solutions have also created inefficiencies. For example, dealers have made significant investments in DMS software to streamline their back office functions, such as accounting, inventory, parts and service, as well as communications with manufacturers. 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. These DMS and CRM software systems typically reside within the physical dealership and have not historically been fully integrated, resulting in additional inefficiencies. These inefficiencies slow the sales and customer management process, as different and sometimes contradictory information is recorded on separate systems.

Dealertrack's high-value web-based solutions are open and flexible. We improve efficiency and reduce processing time for dealers, lenders, and other participants in automotive retailing. For example, our contract processing solution provides lenders with automotive retail contracts and related documents in a digital or electronic format. We also integrate the products and services of third-party service and information providers, such as credit reporting agencies and aftermarket providers.

Since our inception in 2001, Dealertrack has made over 20 strategic acquisitions to help expand and improve our services and offerings to better address the ever-changing automotive retailing marketplace. This includes three strategic acquisitions made during 2012, including:

1st Auto Transport Directory, Inc. (now known as Dealertrack CentralDispatch) – the acquisition includes a web-based network for arranging vehicle transportation and shipping solutions for automotive dealers, brokers, shippers, and carriers within the U.S. and Canada;

ClickMotive, LLC – an interactive marketing solutions company, which delivers digital marketing tools and solutions, such as award-winning desktop and mobile website design, search engine optimization (SEO), search engine marketing (SEM), and social media and reputation management tools; and

Ford of Canada's iCONNECT DMS – an acquisition of the assets of Ford Motor Company of Canada Limited's iCONNECT Direct DMS Business.

Our Customers

Our primary customers are dealers and lenders. We also do business with aftermarket providers, OEMs, and other service and information providers to the automotive retail industry. 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. We primarily generate revenue on either a transaction or subscription basis, depending on the customer and the product or service provided.

Dealers

We offer franchised and independent dealers a suite of integrated technologies, including high-value DMS, Inventory, Sales and F&I, and Interactive solutions that significantly shorten financing processing times, increase efficiencies across the dealership, and allow dealers to spend more time selling automobiles, all of which are expected to increase dealer profitability. We give each dealership the ability to select the specific tools they need to reduce costs, increase profits and sell more vehicles. 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 shorter terms. The trend in the industry is towards shorter term contracts, and in certain cases, month-to-month contracts.

Our Sales and F&I solutions include our web-based credit application processing product that allows automotive dealers to originate and route their consumers' credit application information. 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 to the dealer, as transaction fees are payable by the lenders. Our solutions also 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.

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, as well as vehicle shipping and transportation. Dealertrack also provides electronic and paper solutions to dealers for registering vehicles, eliminating the need for the dealers to interact or visit a State's Department of Motor Vehicle office.

The newly-formed Dealertrack Interactive solution includes the acquired ClickMotive offerings, as well as legacy eCarList interactive offerings. The Interactive solution delivers digital marketing tools and solutions, such as award-winning desktop and mobile website design, search engine optimization, search engine marketing, and social media and reputation management tools. In addition, Dealertrack Digital Retailing offers a number of tools that can be integrated into a dealer's website to deliver pricing, payment, and other options to website visitors. These tools help dealerships expand their online presence to attract more shoppers and achieve higher quality leads and conversion rates.

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.

We also provide 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 with manufacturers for warranty claims, part orders and returns, financial statement submission and other information. In addition, we offer other comprehensive technology and consulting solutions to vehicle manufacturers in order to improve online interactions and awareness, increase vehicle sales, and improve the efficiency of 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 and provide a network for dealer, brokers and transportation carriers to arrange transportation services.

Our Growth Strategy

Our growth strategy is to leverage our position as a leading provider of technology solutions to the North American 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 lender customer base through the efforts of our direct sales force. As of December 31, 2012, we had more than 1,200 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. For example, in 2012, Dealertrack added the captive financing affiliates of Mercedes-Benz (Mercedes-Benz Financial Services) and Volvo (Volvo Car Financial Services) in the United States. Additionally, during February 2013, we announced a long-term strategic partnership with American Honda Finance Corporation.

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, in 2012, we have expanded our current and potential customer base through the acquisitions of Dealertrack CentralDispatch, ClickMotive, and Ford of Canada's iCONNECT DMS. Dealertrack CentralDispatch added additional types of customers including shipping/transportation brokers and carriers.

Sell Additional Products and Services to Our Existing Customers

We believe that a significant market opportunity exists for us to cross-sell additional products and services to the more than 19,000 dealer customers who utilize our credit application processing product or purchase one or more of our subscription-based products or services. Similarly, the more than 1,200 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 plan to further expand our suite of products and services to address the evolving needs of our dealers and other customers. For example, in 2012, we introduced new mobile offerings to help address the growing use of smartphones and tablets by dealers, lenders and consumers. In addition, we continue to identify 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. We are also focused on maximizing the number of transactions in which we are involved in on each car sold in the U.S. and Canada. We continue to expand our offerings by adding more states in which electronic processing of registrations is offered.

Pursue Acquisitions and Strategic Alliances

We have augmented the growth of our business by completing three strategic acquisitions in 2012. In executing our acquisition strategy, we have and will continue to focus 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 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 our technology offerings, reduce operating costs and/or increase our market share.

Solutions

We divide our Dealertrack branded dealer and lender facing products into six solutions: Dealer Management, Sales and F&I, Inventory, Digital Retailing, Interactive, and Processing. Our solutions address many aspects of the end-to-end car buying process, including vehicle research, locating vehicles with a dealership or retail portal, trade-ins, deal structure, financing, and final vehicle delivery. Each of the solutions may offer products in various aspects of the process.

Solutions	Products and Services	Revenue Type
Dealer Management:	<ul style="list-style-type: none"> • Dealertrack DMS for Franchise Dealers • Dealertrack DMS for Independent Dealers 	<ul style="list-style-type: none"> • Subscription and Other • Subscription and Other
Sales and F&I:	<ul style="list-style-type: none"> • Credit Application Network • Credit Bureau Access Platform • BookOut • Dealertrack Compliance • Dealertrack eContracting • DealTransfe® • SalesMaker™ • Dealertrack eMenu • Dealertrack Aftermarket Network 	<ul style="list-style-type: none"> • Transaction • Transaction • Subscription • Subscription and Transaction • Subscription and Transaction • Subscription • Subscription • Subscription • Transaction
Inventory:	<ul style="list-style-type: none"> • Dealertrack eCarLis® • Dealertrack AAX® • BookOut • TrueTarget® • Central Dispatch® • jTracke® • MoveCars 	<ul style="list-style-type: none"> • Subscription, Transaction and Other • Subscription, Transaction and Other • Subscription • Subscription • Subscription • Subscription • Subscription
Digital Retailing:	<ul style="list-style-type: none"> • SmartFind™ • PaymentDrive® • FinanceDrive® 	<ul style="list-style-type: none"> • Subscription • Subscription • Subscription
Interactive:	<ul style="list-style-type: none"> • Dealer Websites • Mobile Websites • SEO and SEM • Social & Reputation Management 	<ul style="list-style-type: none"> • Subscription • Subscription • Subscription • Subscription
Processing:	<ul style="list-style-type: none"> • Dealertrack OLRs® • Dealertrack RegUSA® • Dealertrack Electronic Lien & Title (ELT) • Dealertrack Vehicle Title and Collateral Administration • Dealertrack eDocs 	<ul style="list-style-type: none"> • Transaction • Transaction • Transaction • Transaction and Other • Transaction and Other

Dealer Management solutions:

Dealertrack's DMS provides dealers with easy-to-use tools and real-time data access to enhance their efficiency and control 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.

The product offerings in this solution include Dealertrack DMS for Franchised Dealers and Dealertrack DMS for Independent Dealers. These products differ in that certain functionality that a franchise may require, such as integration with its OEM, is not relevant to an independent dealer. In addition, Dealertrack's DMS Opentrack platform allows dealers to securely integrate their Dealertrack DMS with certified third-party software used within one's dealership. Opentrack encompasses a broad range of certified third-party software providers of CRM, Inventory, Desking, Menu, Multichannel Marketing and Service Applications, among other applications.

Sales and F&I solutions:

Dealertrack's Sales and F&I solutions allow dealers to streamline the entire sales process as they structure deals from a single integrated platform, including our Compliance offering which helps dealers meet legal and regulatory requirements, and protect their assets. Product offerings in this solution include:

Dealertrack Credit Application Network — The 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 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 Office of Foreign Assets Control (OFAC) 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 appears along with the information the dealer has entered, eliminating the need to re-enter personal information into the system when a customer arrives at the dealership.

SalesMaker[™] — SalesMaker is a desking system, which enables 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 dealership profitability. 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 utilized as part of the Dealertrack Compliance offering.

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, Guaranteed Auto Protection (GAP), etch, credit, life and disability insurance, and vehicle recovery systems. Since the Dealertrack Aftermarket Network is fully integrated into the Dealertrack credit application network, both dealers and aftermarket providers benefit from improved accuracy and elimination of duplicate data entry.

Inventory solutions:

Dealertrack's Inventory solution offerings provide vehicle inventory management, merchandising and transportation solutions to help dealers drive higher in-store and online traffic with real-time listings designed to accelerate used-vehicle turn rates and increase dealer profits. Product offerings in this solution include:

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 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 SEO and SEM results, and enhances dealer's websites by delivering rich and robust inventory and market data.

Dealertrack AAX® — 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 integrating Dealertrack eCarList and Dealertrack AAX into one comprehensive inventory management suite in a phased process.

TrueTarget® — Dealertrack TrueTarget is an advanced vehicle analytics web service that delivers real time vehicle-related data from industry sites, including AutoTrader, Cars.com, eBay Motors, and Carfax. In addition to a desktop version, TrueTarget Mobile is available for use with iOS and Android devices.

Vehicle Shipping and Transportation

Central Dispatch® — Dealertrack’s web-based automobile transport network connects more than 6,000 automobile carriers in North America with dealers and other industry retailers to ship vehicles both nationally and internationally.

jTracker® — jTracker is a web-based CRM solution for managing automobile transportation projects and assignments for industry brokers.

MoveCars — Dealertrack MoveCars is an online directory of car shippers and automobile transportation companies and resources.

Digital Retailing solutions:

Dealertrack Digital Retailing currently includes tools that allow visitors to dealerships’ websites to find their right vehicle, review pricing and payment solutions in line with a dealership’s criteria, and capture finance leads for dealers. These are all designed to assist in streamlining the vehicle purchase process. Dealertrack’s Digital Retailing solutions can be embedded in third-party websites and can also be included in dealer websites. Dealertrack’s Digital Retailing product offerings include:

SmartFind™ — A web service that uses proprietary “best match” search algorithms to return a ranked list of available vehicles in inventory, based upon a consumer’s specific search parameters, and perform robust comparisons of actual vehicles in inventory.

PaymentDriver® — A web-based finance payment calculation service for automotive retail portals and websites, giving consumers the ability to generate accurate monthly payments for specific vehicles based on the most current finance rates and residual data available from a dealership’s finance partners.

FinanceDriver® — A web service that allows automotive retailers to provide robust financing services to consumers during the vehicle research process, including the ability to complete a simplified credit application online.

Interactive solutions:

Dealertrack Interactive delivers digital marketing tools and solutions, such as award-winning desktop and mobile website design, SEO, SEM, and social media and reputation management tools. These tools help dealerships expand their online presence to attract more shoppers and achieve higher quality leads and conversion rates. The Interactive product offerings include:

Web — Targeted desktop websites for dealers to engage the customer experience. The website functions as a portal to deliver inventory, advertising, incentives, and various other vehicle related information to the consumer.

Mobile — Platform of tools for mobile website design and creation. The mobile sites, which are built purpose specific and leverage our technology platform, bring the consumer the information they need quickly and efficiently on mobile devices.

Search — SEO and SEM, tracking, campaign management, keyword generation, geo targeting, and other tools which are employed to improve rankings and organic search results for sites, and drive higher quality leads.

Social — Tools that simplify the management of social media presence within the online domain. The tools bring social media outlets together and allow dealers to monitor and help shape their online reputation through tools and integrations.

Processing solutions:

Dealertrack's Processing solutions include electronic motor vehicle registration and titling applications, paper title processing and storage, and digital document services. Product offerings in this solution include:

Registration

Dealertrack OLRS® — Dealertrack Online Registration System (OLRS) is a software-assisted service that provides a do-it-yourself version of department of motor vehicle processing for dealers. 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 the following states: California, Connecticut, Georgia, Illinois, Indiana, Maryland, Massachusetts, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Virginia and Wisconsin.

Dealertrack RegUSA® — 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 which allows our customers to place, monitor and release liens on vehicles in their portfolio, in certain ELT 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.

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. While we have historically provided our Canadian customers with only our credit application and contract processing products, we are now also offering select subscription products in Canada. For the years ended December 31, 2012, 2011 and 2010, our Canadian operations generated approximately 10%, 9% and 12% 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. Our technology includes the following primary components:

Web-Based Interface

Our customers access the majority of our on-demand application products and services through easy-to-use web-based interfaces. 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.

We are increasingly deploying open source technologies in our development environment as we believe these open source solutions will enable world-class software development that is faster and more flexible, thus allowing us to increase the quantity and quality of products we deploy. This highly scalable environment will give us access to open-source developed innovative solutions, providing improved flexibility and rapid deployment capabilities.

We are currently investing in strategic initiatives to create a single underlying common development and data platform for our dealer-facing products. In addition to a common, integrated platform for data to be shared among

Dealertrack applications, we also expect to provide dealers with a single, integrated user interface. We expect that this flexible integrated workflow, referred to as Dealertrack 2.0, will provide significant usability improvements for customers and at the same time promote additional cross-selling of our products as a result of an enhanced workflow.

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 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. Dealertrack website environments are governed by high security standards that include multi-tiered firewall infrastructure that allows for multiple layers of protection on our network and intrusion detection systems to alert of potential network security threats. Our primary production 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 authentication and authorization software solutions to securely manage user access to our applications. Once a user has been authorized, access control to specific functions within the site is performed by the application. 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 leading anti-virus solutions 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 certain primary customer groups within the automotive retail industry: dealers, lenders, OEMs, third-party retailers, agents, and aftermarket 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 telemarketing 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 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:

- participation in industry events, such as the National Automobile Dealers Association trade conference;

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;
- employing our website to offer services, and provide product and company information;
- search engine marketing to increase visibility in search engine result pages;
- promotions and sponsorships on national and regional levels; and
- advertising in online and print automotive trade magazines and other periodicals;

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 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;

providers of inventory analytic tools, including eLEAD, First Look, LLC, Red Bumper LLC, vAuto, Inc., and vinSolutions;

- digital marketing providers, including Cobalt, Dealer.com, and Naked Lime;
- collateral management service providers, including Assurant, PDP Group, and VINtek;
- providers of vehicle electronic registration solutions, including AVRS, CVR, ELS, MVSC, and TitleTec;
- automotive retail sales desking providers, including ADP, Inc., and Market Scan Information Systems, Inc.;
- providers of services related to aftermarket products, including MenuVantage and the StoneEagle Group; and

vehicle shipping and transportation providers, including uShip, Openlane Transport/CarsArrive Network, and Ready Auto Transport/1Dispatch.com.

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. 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 and the Consumer Financial Protection Bureau's (CFPB) 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 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 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 and bring enforcement actions, including regulations prohibiting and enforcement actions redressing unfair, deceptive, and abusive trade practices relating to consumer financial services. The Federal Trade Commission continues to have supervisory and enforcement authority over most franchised dealers, but the CFPB has supervisory and enforcement 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. Our financing clients such as banks, finance companies and captives will be subject to the substantive regulations published by the CFPB (and franchised dealers will remain subject to parallel rules of the Federal Reserve Board) 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. It is anticipated that the CFPB may by regulation in 2013 extend its supervisory authority to include auto lenders as "larger participants" in the market for consumer financial services.

The CFPB may subject us to its supervision and examination 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. It is possible that the FTC will issue regulations that may affect us and the products and services we offer to dealers.

The CFPB is conducting supervisory audits of large auto lenders and has indicated it intends to study and take action with respect to possible Equal Credit Opportunity Act (ECOA) “disparate impact” credit discrimination in indirect auto finance. A “disparate impact” can occur when a facially-neutral practice (such as dealer markups of “buy rates” or the selection of lenders to which dealers submit credit applications) result in statistically significant negative rates or terms for protected classes of persons under ECOA. If the CFPB enters into a consent decree with one or more lenders on disparate impact claims, it could negatively impact the business of the affected lenders, and potentially the business of dealers and other lenders in the consumer indirect auto finance market. This impact on dealers and lenders could result in a reduction of revenue received by us.

The role of our products and services in assisting our customers’ compliance with these requirements depends on a variety of factors, including the particular functionality, interactive design, and classification of the customer. We are not a party to the actual transactions that occur in our network. Our lender, 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, 47 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 being deemed a consumer reporting agency, which would subject the provider to all of the compliance requirements applicable to consumer reporting agencies contained in the FCRA and applicable regulations. As a reseller of certain consumer reports, we are subject to certain obligations under the FCRA and by contract to the consumer reporting agencies whose consumer reports we resell. 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. Section 5 of the FTC Act which prohibits unfair and deceptive practices (UDAPs) does not preempt state UDAP laws, some of which contain more consumer remedies and potential damages against dealers. Our automotive dealer customers remain subject to the laws of their respective states in such matters as disclosures, permissible fees, consumer protection and UDAP 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 service providers that apply to us. 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, rights to opt-out of online tracking, 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 disclosures and opt-out rights, restrictions on email and wireless device communications, data security requirements across various electronic media, security breach consumer notice obligations, 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 retail industry and the credit finance markets. Our financial results are impacted by the number of dealers serviced and the number of vehicles sold. The number of transactions processed through our network is impacted by the level of indirect financing and leasing by our participating lender customers, special promotions by automobile manufacturers and the level of indirect financing and leasing by captive finance companies not available in our network.

The industry has been impacted by a variety of market disruptions. The number of franchise dealerships declined by approximately 2,300, or 11%, between 2008 and 2010 as a result of the general economic environment and the bankruptcy and emergence of two major automobile manufacturers. In recent years, the franchise dealership count has remained consistent at approximately 17,500 based on data from the National Automobile Dealers Association. We do not anticipate a significant change in the number of franchise dealerships over the next few years. A reduction in the number of automotive dealers reduces our opportunities to sell our subscription products.

The number of vehicles sold by dealerships participating on our networks has grown each of the last three years, as the economic environment has recovered. Sales of new vehicles have grown an average of 11% annually over this period, based on data from Automotive News. At this rate of growth, annual new vehicles sales will reach pre-recession (prior to 2007) volume in 2014. We anticipate used vehicles sold by franchise dealerships to remain flat in 2013.

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. Reduced dealer rooftops and strengthening annual sales rates have resulted in a general increase in profitability for dealers for the past few years. While increased profitability may be expected to increase the number of subscriptions, the dealers need for solutions may not be as high as they were during more difficult economic periods, in which certain offerings were essential to dealerships for maintaining liquidity.

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, increased federal taxation, residential and commercial real estate markets, reductions in business and consumer confidence, stock market volatility and increased unemployment.

Employees

As of December 31, 2012, we had approximately 2,000 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, increased federal taxation, 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 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 2012, 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 factors 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 a consolidation of automotive dealers and the number of franchised automotive dealers declined in 2009 and 2010. These declines have stabilized, and in 2011 and 2012 there was no significant change in the number of franchised dealers. To the extent that these consolidated dealers have subscription products, any future 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 debts.

Any such reductions in transactions or subscriptions or an increase in our bad debts 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 solutions. 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, or 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 or impossible 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 or impossible 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 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 of their customers. 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 and systems may be vulnerable to interruptions or failures.

From time to time, we have experienced, and may experience in the future, network or system slowdowns and interruptions. These network and system slowdowns and interruptions may interfere with our ability to do business. Although we believe we have made the appropriate upgrades to our system, 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. Additionally, we have service level agreements with certain of our customers that may result in penalties or trigger cancellation rights in the event of a network slowdown or interruption. This could have a material adverse effect on our business, prospects, financial condition and results of operations.

Undetected errors in our software may harm our operations.

Our software may contain undetected errors, defects or bugs. Although we have not suffered significant harm from any errors, defects or bugs to date, we may discover significant errors, defects or bugs in the future that we may not be able to correct or correct in a timely manner. Our products and services are integrated with products and systems developed by third parties. 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 (each a “force majeure event”). The occurrence of a force majeure event at our facilities in the New York metropolitan area or at any third-party facility we utilize, such as our production center in Piscataway, New Jersey, or our disaster recovery center in Waltham, Massachusetts, could cause interruptions or delays in our business, loss of data or could render us unable to provide our products and services. In addition, the failure of a third-party facility to provide the data communications capacity required by us, as a result of human error, bankruptcy, natural disaster or other operational disruption, could cause interruptions to our computer systems and operations. The occurrence of any or all of these events could have a material adverse effect on our business, prospects, financial condition and results of operations.

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

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

- expanding our customer base;
- selling additional products and services to our existing customers;
- expanding our offerings; and
- pursuing acquisitions and strategic alliances.

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

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

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

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

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- the volume of new and used automobiles financed or leased by our participating lender customers;
- the timing, size and nature of our subscriptions and any cancellations thereof;
- product and price competition regarding our products and services and those of our participating lenders;

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

- changes in our operating expenses;
- foreign currency fluctuations, particularly the U.S. dollar vs. the Canadian dollar;
- the timing of acquisitions or divestitures of businesses, products and services;

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

- the seasonality of car sales;
- our unpredictable sales cycles;
- 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 may not necessarily be 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, which certain regulations obligate our clients to monitor. These include the FCRA, the 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, the Telephone Consumer Protection Act, the Dodd–Frank Wall Street Reform and Consumer Protection Act, and applicable Federal Communications Commission (FCC) telemarketing rules, and the Federal Trade Commission’s Privacy Rule, Safeguards Rule, Consumer Report Information Disposal Rule, Telemarketing Sales Rule, Risk-Based Pricing Rule, and Red Flags Rule, as well as regulations promulgated by the Federal Reserve Board and the Consumer Financial Protection Bureau. If we, or a lender or dealer discloses or uses consumer information provided through our system in violation of these or other laws or regulations, or engage in other prohibited conduct, we may be subject to claims or enforcement actions by state or federal regulators. We cannot predict whether such claims or enforcement actions will arise or the extent to which, if at all, we may be held liable. Such claims or enforcement actions could have a material adverse effect on our business, prospects, financial condition and results of operations.

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

The CFPB is conducting supervisory audits of large auto lenders and has indicated it intends to study and take action with respect to possible ECOA “disparate impact” credit discrimination in indirect auto finance. A “disparate impact” can occur when a facially-neutral practice (such as dealer markups of “buy rates” or the selection of lenders to which dealers submit credit applications) result in statistically significant negative rates or terms for protected classes of persons under ECOA. If the CFPB enters into a consent decree with one or more lenders on disparate impact claims, it could negatively impact the business of the affected lenders, and potentially the business of dealers and other lenders in the consumer indirect auto finance market. This impact on dealers and lenders could result in a reduction of revenue received by us.

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

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

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

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

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

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

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

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

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

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

Our success depends, in large part, on our ability to protect our intellectual property and other proprietary rights. We rely upon a combination of trademark, trade secret, copyright, patent and unfair competition laws, as well as license agreements and other contractual provisions, to protect our intellectual property and other proprietary rights. In addition, we attempt to protect our intellectual property and proprietary information by requiring certain of our employees and consultants to enter into confidentiality, non-competition and assignment of inventions agreements. To

the extent that our intellectual property and other proprietary rights are not adequately protected, third parties might gain access to our proprietary information, develop and market products and services similar to ours, or use trademarks similar to ours. Existing U.S. federal and state intellectual property laws offer only limited protection. Moreover, the laws of Canada, and any other foreign countries in which we may market our products and services in the future, may afford little or no effective protection of our intellectual property. If we resort to legal proceedings to enforce our intellectual property rights or to determine the validity and scope of the intellectual property or other proprietary rights of others, the proceedings could be burdensome and expensive, and we may not prevail. The failure to adequately protect our intellectual property and other proprietary rights, or manage costs associated with enforcing those rights, could have a material adverse effect on our business, prospects, financial condition and results of operations.

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

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

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

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

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

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

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

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

Since 2001, we have acquired numerous businesses, including, most recently, our acquisition of 1st Auto Transport Directory, Inc. (now known as Dealertrack CentralDispatch) on August 1, 2012, ClickMotive, LLC on October 1, 2012 and the assets of Ford of Canada's iCONNECT DMS on November 1, 2012. As part of our ongoing business strategy to expand product offerings and acquire new technology, we frequently engage in discussions with third parties regarding, and enter into agreements relating to, possible acquisitions, strategic alliances and joint ventures. There may be significant competition for acquisition targets in our industry, or we may not be able to identify suitable acquisition candidates or negotiate attractive terms for acquisitions. If we are unable to identify future acquisition opportunities, reach agreement with such third parties or obtain the financing necessary to make such acquisitions, we could lose market share to competitors who are able to make such acquisitions, which could have a material adverse effect on our business, prospects, financial condition and results of operations.

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

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

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

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

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

We may not successfully integrate recent or future acquisitions.

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

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

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

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

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

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

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

Under accounting principles generally accepted in the United States (GAAP), we review our intangible assets, including goodwill, for impairment annually in the fourth quarter of each fiscal year, or more frequently if events or changes in circumstances indicate the carrying value of our intangible assets may not be fully recoverable. The carrying value of our intangible assets may not be recoverable due to factors such as a decline in our stock price and market capitalization, reduced estimates of future cash flows or slower growth rates in our industry. Estimates of future cash flows are based on a long-term financial outlook of our operations. Actual performance in the near-term or long-term could be materially different from these forecasts, which could impact future estimates and the recorded value of the intangibles. For example, a significant, sustained decline in our stock price and market capitalization may result in impairment of certain of our intangible assets, including goodwill, and a significant charge to earnings in our consolidated financial statements during the period in which an impairment is determined to exist. We will continue to monitor and evaluate the carrying value of our goodwill. In the event we had to reduce the carrying value of our goodwill, any such impairment charge could materially reduce our results of operations.

If our investments become impaired we may be required to record a significant non-cash charge to earnings which would negatively impact our results of operations.

Under accounting principles generally accepted in the United States (GAAP), we review our cost and equity investments when events or changes in circumstances indicate the carrying value of our investments may not be fully recoverable. The carrying value of our investments may not be recoverable due to factors such as any adverse business conditions or decline in value of the companies in which we hold an investment. Our investment of \$82.7 million in TrueCar is recorded at cost on the consolidated balance sheet as of December 31, 2012. A significant change in the inputs used to determine fair value of our cost method investment in TrueCar may result in impairment and a significant charge to earnings in our consolidated financial statements during the period in which an impairment is determined to exist. We will continue to monitor and evaluate the carrying value of our cost and equity investments. In the event we had to reduce the carrying value of our investments, any such impairment charge could materially reduce our results of operations.

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

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

- price and volume fluctuations in the overall stock market from time to time;

• actual or anticipated changes in our earnings or fluctuations in our operating results or in the expectations of equity research analysts;

- trends in the automotive and automotive finance industries;

- catastrophic events;

- fluctuations in the credit markets, including the pricing and availability of credit;

- loss of one or more significant customers or strategic alliances;

- significant acquisitions, strategic alliances, joint ventures or capital commitments by us or our competitors;

legal or regulatory matters, including legal decisions affecting the indirect automotive finance industry or involving the enforceability or order of priority of security interests of electronic chattel paper affecting our electronic contracting product;

- large block of trades of our common stock; and
- additions or departures of key employees.

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

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

The convertible note hedges and warrant transactions we entered into in connection with our senior convertible notes issuance may affect the trading price of our common stock.

In connection with our offering of our senior convertible notes due March 15, 2017, we entered into convertible note hedge transactions with the initial purchasers of the notes or their respective affiliates (the hedge counterparties). The convertible note hedge transactions are expected to reduce the potential dilution to our common stock and/or offset potential cash payments in excess of the principal amount of the notes, as the case may be upon conversion of the notes. In the event that the hedge counterparties fail to deliver shares to us or potential cash payments as the case may be as required under the convertible note hedge documents, we would not receive the benefit of such transactions. Separately, we also entered into warrant transactions with the hedge counterparties. The warrant transactions could separately have a dilutive effect from the issuance of common stock pursuant to the warrants.

In connection with the convertible note hedge and warrant transactions, the hedge counterparties and/or their affiliates have or may enter into various derivative transactions with respect to our common stock, and may enter into, or may unwind, various derivative transactions and/or purchase or sell our common stock or other securities of ours in secondary market transactions prior to maturity of the notes (and are likely to do so during any conversion period

related to any conversion of the notes). These activities could have the effect of increasing or preventing a decline in, or could have a negative effect on, the value of our common stock and could have the effect of increasing or preventing a decline in the value of our common stock during any cash settlement averaging period related to a conversion of the notes.

In addition, we intend to exercise options under the convertible note hedge transactions whenever notes are converted. In order to unwind its hedge position with respect to the options we exercise, the hedge counterparties and/or their affiliates may sell shares of our common stock or other securities in secondary market transactions or unwind various derivative transactions with respect to our common stock during the cash settlement averaging period for the converted notes. The effect, if any, of any of these transactions and activities on the trading price of our common stock or the notes will depend in part on market conditions and cannot be ascertained at this time, but any of these activities could adversely affect the value of our common stock and the value of the notes. The derivative transactions that the hedge counterparties and/or their affiliates expect to enter into to hedge these transactions may include cash-settled equity swaps referenced to our common stock. In certain circumstances, the hedge counterparties and/or their affiliates may have derivative positions that, when combined with the hedge counterparties' and their affiliates' ownership of our common stock, if any, would give them economic exposure to the return on a significant number of shares of our common stock.

In addition, the hedge counterparties to our cash convertible note hedge transactions are financial institutions or affiliates of financial institutions, and we are subject to risks that these hedge counterparties default under these transactions. Our exposure to counterparty credit risk is not secured by any collateral. If one or more of the hedge counterparties to one or more of our convertible note hedge transactions becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at the time under those transactions. Our exposure will depend on many factors but, generally, the increase in our exposure will be correlated to the increase in our stock price and in volatility of our stock. We can provide no assurances as to the financial stability or viability of any of our counterparties.

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

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

- our board of directors is classified into three classes, each of which serves for a staggered three-year term;
 - only our board of directors may call special meetings of our stockholders;

we have authorized undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval;

- our stockholders have only limited rights to amend our by-laws; and
- we require advance notice for stockholder proposals and director nominations.

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

In addition, we are subject to Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, prohibits “business combinations” between a publicly-held Delaware corporation and an “interested stockholder,” which is generally defined as a stockholder who becomes a beneficial owner of 15% or more of a

Delaware corporation's voting stock, for a three-year period following the date that such stockholder became an interested stockholder. Section 203 could have the effect of delaying, deferring or preventing a change in control of our company that our stockholders might consider to be in their best interests.

Certain provisions of our senior convertible notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transaction constituting a fundamental change, holders of the notes will have the right, at their option, to require us to repurchase all of their notes or any portion of the principal amount of such notes in integral multiples of \$1,000. We also may be required to issue additional shares upon conversion in the event of certain fundamental changes.

The fundamental change purchase rights, which will allow holders of the notes to require us to purchase all or a portion of their notes upon the occurrence of a fundamental change, as defined in the indenture governing the notes, and the provisions requiring an increase to the conversion rate for conversions in connection with make-whole fundamental changes, as set forth in the indenture, may in certain circumstances delay or prevent a takeover of us that may be beneficial to investors. In addition, upon the occurrence of certain extraordinary events, the convertible note hedge transactions would be exercised upon the conversion of notes, and the warrant transactions may be terminated. It is possible that the proceeds we receive upon the exercise of the convertible note hedge transactions would be significantly lower than the amounts we would be required to pay upon termination of the warrant transactions. Such differences may result in the acquisition of us being on terms less favorable to our stockholders than it would otherwise be.

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

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

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

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

Our credit facility contains restrictive covenants that limit our ability and our existing or future subsidiaries' abilities, among other things, to:

- incur additional indebtedness;

pay dividends or make distributions in respect of our, or our existing or future subsidiaries', capital stock or to make certain other restricted payments or investments;

- make certain investments, loans, advances, guarantees or acquisitions;
- enter into sale and leaseback transactions;
- agree to payment restrictions;
- incur additional liens;

consolidate, merge, sell or otherwise dispose of all or substantially all of our, or our applicable subsidiary's, assets;

- enter into transactions with our, or our applicable subsidiary's, affiliates;
 - sell assets;
 - make capital expenditures;
- make optional payments in respect of, and amendments to, certain other types of debt;

- enter into swap agreements;
- change certain fiscal periods; and
- enter into new lines of business.

In addition, our credit facility requires us, and our subsidiaries, to maintain compliance with specified financial ratios on a consolidated basis. Our, and our subsidiaries', ability to comply with these ratios may be affected by events beyond our control.

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

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our corporate headquarters is located in Lake Success, New York, where we lease approximately 80,000 square feet of office space. Our principal offices are located in Sacramento, California; Groton, Connecticut; Wilmington, Ohio; Mississauga, Ontario; Dallas, Texas; Memphis, Tennessee; and South Jordan, Utah. We lease all of the office space for our principle offices.

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

Item 3. *Legal Proceedings*

From time to time, we are a party to litigation matters arising in connection with the normal course of our business, none of which are expected to have a material adverse effect on us. In addition to the litigation matters arising in connection with the normal course of our business, we are party to the litigation described under Note 15 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K under the heading “Legal Proceedings” and incorporated by reference herein.

Item 4. *Mine Safety Disclosures*

Not applicable.

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

As of January 31, 2013, there were 30 holders of record of our common stock. Our common stock is listed and traded on the NASDAQ Global Market under the symbol "TRAK". The following table sets forth the range of high and low sales prices for the common stock in each quarter of 2012 and 2011, as reported by the NASDAQ Global Market.

	High	Low
Year Ended December 31, 2012		
Fourth Quarter	\$29.09	\$23.31
Third Quarter	\$30.77	\$26.88
Second Quarter	\$31.98	\$25.20
First Quarter	\$31.90	\$25.79
Year Ended December 31, 2011		
Fourth Quarter	\$28.46	\$14.01
Third Quarter	\$24.65	\$15.37
Second Quarter	\$26.80	\$20.61
First Quarter	\$22.96	\$19.11

Dividend Policy

We have not paid any cash dividends on our common stock. We do not anticipate declaring or paying cash dividends on our common stock, and we are currently limited in doing so pursuant to our credit facility.

Repurchases

From time to time, in connection with the vesting of restricted common stock units under our incentive award plans, we have received shares of our common stock in consideration of the tax withholdings due upon the vesting of

restricted common stock units.

The following table sets forth the repurchases for the three months ended December 31, 2012, all of which were in conjunction with the vesting of restricted common stock units:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares That May Yet be Purchased Under the Program
October 2012	—	\$ —	n/a	n/a
November 2012	1,762	\$ 26.79	n/a	n/a
December 2012	—	\$ —	n/a	n/a
Total	1,762			

Item 6. Selected Financial Data

The selected consolidated financial data as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 have been derived from our consolidated financial statements and related notes thereto included elsewhere herein, which have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. The selected historical consolidated financial data as of December 31, 2010, 2009 and 2008 and for each of the two years in the period ended December 31, 2009 have been derived from our audited consolidated financial statements and related notes thereto, which are not included in this filing, and which have also been audited by PricewaterhouseCoopers LLP.

We completed multiple acquisitions, as well as the divestiture of ALG, Inc. (ALG) and the contribution of Chrome Systems, Inc. (Chrome) to a joint venture, during the periods presented below. The operating results of the acquired businesses have been included in our historical results of operations from the respective acquisition dates. The operating results of our disposed businesses are included in our historical results of operations through the disposal date. These acquisitions and disposals have significantly affected our revenue, results of operations and financial condition. Accordingly, the results of operations for the periods presented may not be comparable due to these acquisitions and disposals.

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

	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands, except per share amounts)				
Consolidated Statements of Operations Data:					
Net revenue	\$388,872	\$353,294	\$243,826	\$225,626	\$242,706
Income (loss) from operations	\$13,927	\$14,238	\$655	\$(10,950)	\$7,052
Income (loss) before (provision for) benefit from income taxes	\$32,703	\$62,732	\$2,764	\$(7,853)	\$5,697
Net income (loss)	\$20,454	\$65,135	\$(27,833)	\$(4,334)	\$1,736
Basic net income (loss) per share	\$0.48	\$1.58	\$(0.69)	\$(0.11)	\$0.04
Diluted net income (loss) per share	\$0.46	\$1.53	\$(0.69)	\$(0.11)	\$0.04
Weighted average common stock outstanding (basic)	42,508	41,270	40,323	39,525	40,462
Weighted average common stock outstanding (diluted)	43,999	42,527	40,323	39,525	41,538

	As of December 31,				
	2012	2011	2010	2009	2008
	(in thousands)				
Consolidated Balance Sheets Data:					
Cash and cash equivalents, and marketable securities (short and long-term)	\$182,270	\$78,755	\$195,307	\$202,964	\$203,198
Working capital (1)	\$172,109	\$94,518	\$200,942	\$191,894	\$197,797
Total assets	\$910,516	\$660,353	\$458,963	\$472,327	\$437,215
Capital lease obligations (short and long-term), due to acquirees (short and long-term), deferred revenue (short and long-term) and other long-term liabilities	\$29,693	\$31,081	\$11,572	\$13,398	\$17,272
Senior convertible notes	\$162,279	\$—	\$—	\$—	\$—
Retained earnings (accumulated deficit)	\$73,680	\$53,226	\$(11,909)	\$15,924	\$20,258
Total stockholders’ equity	\$571,317	\$494,756	\$408,917	\$420,886	\$396,220

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

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and related notes thereto. In addition, you should read the sections entitled “Cautionary Statements Relating to Forward-Looking Statements” and “Risk Factors” in Part I, Item 1

and Item 1A, respectively, in this Annual Report on Form 10-K.

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 networks in the United States and Canada. We believe Dealertrack delivers the industry's most comprehensive solution set for automotive retailers, including:

Dealer Management solutions, which provide independent and franchised dealers with a powerful dealer management system (DMS) featuring easy-to-use tools and real-time data access to enhance their efficiency;

Sales and F&I solutions, which allow dealers to streamline the in-store and online sales processes as they structure deals from a single integrated platform;

Inventory solutions, which deliver vehicle inventory management and transportation offerings to help dealers accelerate used-vehicle turn rates and assisting with the facilitation of vehicle delivery;

Processing solutions, which include online motor vehicle registration, lien and titling applications and services, and collateral management services;

Digital Retailing solutions, which integrate advanced vehicle search, pricing and payment tools directly into a retailer's website; and

Interactive solutions, which deliver digital marketing and website offerings to assist dealers in achieving higher lead conversion rates by helping optimize the maximum amount of shoppers to their websites.

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 monitor our business performance using a number of measures that are not found in our consolidated financial statements. These measures include the number of active dealers and lenders, active lender to dealership relationships in the Dealertrack network, the number of transactions processed, average transaction price, transaction revenue per car sold, the number of subscribing dealers in the Dealertrack network, and the average monthly subscription revenue per subscribing dealership. We believe that improvements in these metrics will result in improvements in our financial performance over time.

We also view the acquisition and successful integration of acquired companies as important milestones in the growth of our business as these acquired companies bring new products to our customers and expand our technological capabilities. We believe that successful acquisitions will also lead to improvements in our financial performance over time. In the near term, however, the purchase accounting treatment of acquisitions can have a negative impact on our consolidated statement of operations, as the depreciation and amortization expenses associated with acquired assets can be substantial for several years following each acquisition. As a result, we monitor our non-GAAP financial measures and other business statistics as a measure of operating performance in addition to net income (loss) and the other measures included in our consolidated financial statements.

The following table consists of our non-GAAP financial measures and certain other business statistics that management continually monitors (amounts in thousands are GAAP net income (loss), adjusted earnings before interest, taxes, depreciation and amortization (EBITDA), adjusted net income, capital expenditure data and transactions processed):

	Year Ended December 31,		
	2012	2011	2010
GAAP net income (loss)	\$20,454	\$65,135	\$(27,833)
Non-GAAP Financial Measures and Other Business Statistics:			
Adjusted EBITDA – previous presentation (non-GAAP) (1)	\$83,681	\$74,409	\$42,070
Adjusted EBITDA (non-GAAP) (1)	\$97,273	\$85,904	\$53,303
Adjusted net income (non-GAAP) (1)	\$49,068	\$43,443	\$21,943
Capital expenditures, software and website development costs	\$40,803	\$32,236	\$30,938
Active dealers in our U.S. network as of end of the year (2)	19,067	17,543	16,829
Active lenders in our U.S. network as of end of the year (3)	1,261	1,120	970
Active lender to dealer relationships as of end of the year (4)	174,628	164,776	140,359
Transactions processed (5)	87,833	74,450	49,373
Average transaction price (6)	\$2.61	\$2.53	\$2.10
Transaction revenue per car sold (7)	\$6.95	\$6.39	\$3.74
Subscribing dealers in U.S. and Canada as of end of the year (8)	17,619	16,003	13,996
Average monthly subscription revenue per subscribing dealership (9)	\$708	\$813	\$749

(1) Adjusted EBITDA is a non-GAAP financial measure that represents GAAP net income (loss) excluding interest, taxes, depreciation and amortization expenses, stock-based compensation, contra-revenue and certain items, as applicable, such as: impairment charges, restructuring charges, impact of acquisition-related activity (including contingent consideration changes, compensation expense, basis difference amortization, and professional service fees), realized gains on sales of previously impaired securities, gains or losses on sales or disposals of subsidiaries and other assets, rebranding expense and certain other non-recurring items.

In response to requests, and in consideration of comparable peer companies, stock-based compensation expense is now excluded from the calculation of the Adjusted EBITDA non-GAAP measure. This reduces the comparability with prior periods. This non-cash expense was included in presentations prior to the fourth quarter of 2011 and is captioned above as “Adjusted EBITDA – previous presentation (non-GAAP).”

Adjusted net income is a non-GAAP financial measure that represents GAAP net income (loss) excluding stock-based compensation expense, the amortization of acquired identifiable intangibles, contra-revenue, and certain items, as applicable, such as: impairment charges, restructuring charges, impact of acquisition-related activity (including contingent consideration changes, compensation expense, basis difference amortization, and professional service fees), realized gains on sales of previously impaired securities, gains or losses on sales or disposals of subsidiaries and other assets, adjustments to deferred tax asset valuation allowances, non-cash interest expense, rebranding expense and certain other non-recurring items. These adjustments to net income (loss), which are shown before taxes, are adjusted for their tax impact at their applicable statutory rates.

Adjusted EBITDA and adjusted net income are presented because management believes that they provide additional information with respect to the performance of our fundamental business activities and are also frequently used by securities analysts, investors and other interested parties in the evaluation of comparable companies. We rely on adjusted EBITDA and adjusted net income as primary measures to review and assess the operating performance of our company and management team in connection with our executive compensation plan incentive payments.

Adjusted EBITDA and adjusted net income have limitations as analytical tools and you should not consider them in isolation from, or as a substitute for, analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA and adjusted net income do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;

- Adjusted EBITDA and adjusted net income do not reflect changes in, or cash requirements for, our working capital needs;

- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and adjusted EBITDA and adjusted net income do not reflect any cash requirements for such replacements;

- Non-cash compensation is and will remain a key element of our overall long-term incentive compensation package, although we exclude it from adjusted net income and adjusted EBITDA when evaluating our ongoing performance for a particular period;

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

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

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

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

	Year Ended December 31,		
	2012	2011	2010
GAAP net income (loss)	\$20,454	\$65,135	\$(27,833)
Interest income	(745)	(331)	(525)
Interest expense – cash	3,357	927	175
Interest expense – non-cash (10)	7,444	—	—
Provision for (benefit from) income taxes, net	12,249	(2,403)	30,597
Depreciation of property and equipment and amortization of capitalized software and website costs	23,345	20,961	17,329
Amortization of acquired identifiable intangibles	28,333	29,727	19,424
EBITDA (non-GAAP)	94,437	114,016	39,167
Adjustments:			
Gain on disposal of subsidiaries and sale of other assets	(33,193)	(47,321)	—
Acquisition-related and other professional fees	2,711	4,721	1,905
Contra-revenue (11)	4,215	4,248	1,580
Integration and other related costs (including amounts related to stock-based compensation)	1,530	1,223	—
Change in fair value of warrant	6,310	(1,000)	—
Rebranding expense	1,909	—	—
Acquisition-related contingent consideration changes and compensation expense, net (12)	1,777	(1,069)	—
Amortization of equity method investment basis difference (13)	3,985	—	—
Realized gain on sale of previously impaired securities	—	(409)	(582)
Adjusted EBITDA – previous presentation (non-GAAP)	83,681	74,409	42,070
Stock-based compensation (excluding amounts included in integration and other related costs)	13,592	11,495	11,233
Adjusted EBITDA (non-GAAP)	\$97,273	\$85,904	\$53,303

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

	Year Ended December 31,		
	2012	2011	2010
GAAP net income (loss)	\$20,454	\$65,135	\$(27,833)
Adjustments:			
Deferred tax asset valuation allowance (non-taxable) (14)	—	(21,912)	28,406
Amortization of acquired identifiable intangibles	28,333	29,727	19,424
Stock-based compensation (excluding integration and other related costs)	13,592	11,495	11,233
Gain on disposal of subsidiaries and sale of other assets	(33,193)	(47,321)	—
Interest expense – non-cash (not tax-impacted) (10)	7,444	—	—
Acquisition-related and other professional fees	2,711	4,721	1,905
Contra-revenue (11)	4,215	4,248	1,580
Integration and other related costs (including amounts related to stock-based compensation)	1,583	1,223	—
Change in fair value of warrant	6,310	(1,000)	—
Amortization of equity method investment basis difference (13)	3,985	—	—
Rebranding expense	1,909	—	—
Acquisition-related contingent consideration changes and compensation expense, net (12)	1,777	(1,069)	—
Accelerated depreciation of certain technology assets (15)	1,004	—	—
Disposed deferred tax liabilities (non-taxable)	—	(3,221)	—
Amended state tax returns impact (non-taxable)	—	(239)	101
Realized gain on sale of previously impaired securities (non-taxable)	—	(409)	(582)
Tax impact of adjustments (16)	(11,056)	2,065	(12,291)
Adjusted net income (non-GAAP)	\$49,068	\$43,443	\$21,943

(2) We consider a dealer to be active in our U.S. network as of a date if the dealer completed at least one revenue-generating credit application processing transaction using the U.S. Dealertrack network during the most recently ended calendar month. The number of active U.S. dealers is based on the number of dealer accounts as communicated by lenders on the U.S. Dealertrack network.

(3) We consider a lender to be active in our U.S. network as of a date if it is accepting credit application data electronically from U.S. dealers in the U.S. Dealertrack network.

(4) Each lender to dealer relationship represents a pair between an active U.S. lender and an active U.S. dealer at the end of a given period.

(5)

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Represents revenue-generating transactions processed in the U.S. Dealertrack, Dealertrack Aftermarket Services, Dealertrack Processing Solutions and Dealertrack Canada networks at the end of a given period.

Represents the average revenue earned per transaction processed in the U.S. Dealertrack, Dealertrack Aftermarket (6) Services, Dealertrack Processing Solutions and Dealertrack Canada networks during a given period. Revenue used in the calculation adds back (excludes) transaction related contra-revenue.

(7) Represents transaction services revenue divided by our estimate of total new and used car sales for the period in the U.S. and Canada. Revenue used in this calculation adds back (excludes) transaction related contra-revenue.

Represents the number of dealerships in the U.S. and Canada with one or more active subscriptions at the end of a (8) given period. Subscriptions to Dealertrack CentralDispatch have been excluded as their customers include brokers and carriers in addition to dealers.

- Represents subscription services revenue divided by average subscribing dealers for a given period in the U.S. and Canada. Revenue used in the calculation adds back (excludes) subscription related contra-revenue. In addition, subscribing dealers and subscription services revenue from Dealertrack CentralDispatch have been excluded from the calculation as a majority of these customers are not dealers.
- (9)
- (10) Represents interest expense relating to the amortization of deferred financing costs and debt discount in connection with the senior convertible notes and revolving credit facility.
- (11) For further information, please refer to Note 15 and Note 17 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K.
- (12) Represents the change in the acquisition-related contingent consideration from the eCarList and ClickMotive acquisitions and other additional acquisition-related compensation charges.
- (13) Represents amortization of the basis difference between the book basis of contributed Chrome assets and the fair value of the investment in Chrome Data Solutions.

At December 31, 2010, we determined that the ultimate realization of deferred tax assets for U.S. federal and state income tax purposes was not considered more likely than not and recorded a full valuation allowance of \$28.4 million against our net U.S. deferred tax assets. As a result of the acquisition of Dealertrack Processing Solutions in 2011, we evaluated the combined enterprises past and expected future results, including the impact of the future reversal of the acquired deferred tax liabilities, and determined that the future reversal of the acquired deferred tax liabilities would provide sufficient taxable income to support realization of certain of DealerTrack's

(14) deferred tax assets and thereby we reduced the valuation allowance by approximately \$24.5 million. In addition, as a result of the sale of ALG in 2011, and the establishment of deferred tax liabilities on the transaction along with the expected future reversal of deferred tax liabilities, we evaluated the need for a full valuation allowance on our remaining net deferred tax assets and determined that the ultimate realization of deferred tax assets for U.S. federal and state income tax purposes was considered more likely than not and we reversed a portion of the remaining valuation allowance on our net U.S. deferred tax assets. For further information please refer to Note 13 in the accompanying notes to the consolidated financial statements included in this Annual Report on Form 10-K.

- (15) Represents the accelerated depreciation of certain technology assets due to the discontinuation of those projects.
- (16) The tax impact of adjustments for the year ended December 31, 2012, are based on a U.S. statutory tax rate of 38.2% applied to taxable adjustments other than amortization of acquired identifiable intangibles and stock-based compensation expense, which are based on a blended tax rate of 38.1% and 37.7%, respectively. The tax impact of adjustments for the year ended December 31, 2011, are based on a U.S. statutory tax rate of 37.4% applied to taxable adjustments other than amortization of acquired identifiable intangibles and stock-based compensation expense, which are based on a blended tax rate of 37.2% and 37.0%, respectively. The tax impact of adjustments for the year ended December 31, 2010, are based on a U.S. effective tax rate of 36.9% applied to taxable adjustments other than amortization of acquired identifiable intangibles and stock-based compensation expense,

which are based on a blended tax rate of 35.4% and 36.7%, respectively.

Revenue

Transaction Services Revenue. Transaction services revenue consists of revenue earned from our lender customers for each credit application or contract that dealers submit to them. In addition, we earn transaction services revenue from lender customers for each financing contract executed via our electronic contracting and digital contract processing solutions, as well as for any ALG portfolio residual value analyses performed prior to its disposal in 2011. In addition, we earn transaction service revenue from lender customers for collateral management transactions.

We also earn transaction services revenue from dealers or other service and information providers, such as aftermarket providers, accessory providers and credit report providers, for each fee-bearing product accessed by dealers. This includes transaction services revenue for completion of on-line registrations with department of motor vehicles, completion of inventory appraisals, and accessing of credit reports.

Subscription Services Revenue. Subscription services revenue consists of revenue earned from our dealers and other customers (typically on a monthly basis) for use of our subscription or license-based products and services. Our subscription services enable dealers and other customers to manage their dealership data and operations, compare various financing and leasing options and programs, sell insurance and other aftermarket products, analyze, merchandise, and transport inventory and execute financing contracts electronically.

Other Revenue. Other revenue consists of revenue primarily earned through forms programming, data conversion, hardware and equipment sales from our Dealer Management solution, shipping fees and commissions earned from our digital contract business, and consulting and analytical revenue earned from ALG in periods prior to its disposal in 2011. Training fees are also included in other revenue.

See “Critical Accounting Policies and Estimates” for further discussion of revenue recognition.

Operating Expenses

Cost of Revenue. Cost of revenue primarily consists of expenses related to running our network infrastructure (including Internet connectivity, hosting expenses, and data storage), amortization expense on acquired intangible assets, capitalized software and website development costs, compensation and related benefits for network and technology development personnel, amounts paid to third parties pursuant to contracts under which (i) a portion of certain revenue is owed to those third parties (revenue share) or, (ii) fees are due on the number of transactions processed and direct costs for data licenses. Cost of revenue also includes hardware costs associated with our DMS product offering, and compensation, related benefits and travel expenses associated with DMS installation personnel, compensation and related benefits associated with strategic inventory consulting personnel, compensation and related benefits, and temporary labor associated with personnel who process transactions for our digital contract, collateral management, and registration and titling solutions, and advertising expenses associated with certain of our search and media product offerings. For those periods prior to the disposal of ALG, cost of revenue also included direct costs (printing, binding and delivery) associated with residual value guides.

Product Development Expenses. Product development expenses consist primarily of compensation and related benefits, consulting fees and other operating expenses associated with our product development departments. The product development departments perform research and development, in addition to enhancing and maintaining existing products.

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

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

Acquisitions

We have grown our business since inception through a combination of organic growth and acquisitions. The operating results of each business acquired have been included in our consolidated financial statements from the respective dates of acquisition. Our acquisitions have been recorded under the acquisition method of accounting, pursuant to which the total purchase price is allocated to the net assets acquired based upon estimates of the fair value of those net assets