

DealerAdvance, Inc.
Form 10-K
April 17, 2008

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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934
For the fiscal year ended **December 31, 2007**

Commission File Number **333-54822**

DEALERADVANCE, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
Incorporation or organization)

20-5717448
(IRS Employer
Identification No.)

1801 Addison Road, Suite 310, Addison, TX
(Address of Principal Executive offices)

75001
(Zip Code)

Registrant's telephone number, including area code: **(214) 866-0606**

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

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, no par value**

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

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K (§229.405 of this Chapter) 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. Yes No

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Check one: Large accelerated filer Accelerated filer Smaller

reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No x

State the aggregate market value of the voting and non-voting common equity held by non-affiliates by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$1,726,354 as of June 30, 2007.

Number of shares outstanding of issuer's Common Stock, no par value outstanding as of March 28, 2008: 490,824,656

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 414(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980). None.

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We want to provide you with more meaningful and useful information. This Annual Report on Form 10-K contains certain "forward-looking statements" (as such term is defined in Section 21E of the Securities Exchange Act of 1934, as amended). These statements reflect our current expectations regarding our possible future results of operations, performance and achievements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Wherever possible, we have tried to identify these forward-looking statements by words such as “anticipate,” “believe,” “estimate,” “expect,” “plan,” “intend” and similar expressions. These statements reflect our current beliefs and are based on information currently available to us. Accordingly, these statements are subject to certain risks, uncertainties, and contingencies, which could cause our actual results, performance, or achievements to differ materially from those expressed in, or implied by, such statements. These risks, uncertainties and contingencies include, without limitation, the factors set forth under Item 7. *Management’s Discussion and Analysis of Financial Condition and Results of Operations*.

PART I

Item 1. Business.

We design, develop, market, sell and install a web-based application software and database system that manages the auto dealer-customer relationship. In January 2007, we announced the launch of Web DA™, our new web-based version of our DealerAdvance™ software for conventional desktop or laptop computers. To become more competitive in the marketplace, we began the development of a version of Web DA™ for small hand-held ultra-mobile personal computers ("UMPC's") in March 2007. This product, introduced in March of this year, will enable any car salesperson to complete the entire sales process from virtually anywhere using any popular UMPC. We are developing our new release, Web DA™ 1.5 for introduction later this year that incorporates additional features and benefits to the customer.

Our headquarters in Addison, Texas (near Dallas) houses our executive management, financial accounting, software development/technical support, and marketing and sales operations. We have ten employees: our chief executive officer, our chief financial officer, our chief information officer and two other employees in software development/technical support, and five in sales and administration, including our vice president of sales and marketing. All are full-time employees.

Our suite of Customer Relationship Management ("CRM") software assists auto dealerships in collecting customer contact information, follow-up on sales prospects, and finalizing sales. Web DA™ affords dealerships a quick turn on, easy to use, cost effective and accessible CRM system. The software will allow dealerships to run programs without a significant investment in new hardware, which was required with our former product. Now, with the new web based technology, users can access Web DA™ on any Microsoft™ Windows Vista Home Premium™ based UMPC from anywhere where there is an Internet connection at anytime.

CRM is a customer-centric business strategy with the goal of maximizing profitability, revenue, and customer satisfaction. To support this strategy, a dealer must capture, store and analyze both customer and internal process information. Many auto dealerships still rely on a paper-based process to capture prospects and track progress towards the sale. This is difficult to manage due to high turnover and the lack of certain skills in the typical sales force. Such a process does not provide management with adequate tools to determine how many prospects have been generated and whether they are receiving follow-up after leaving the dealership. Our software prompts the salesperson to capture more information about each prospect and advises them of the appropriate follow up, and when a customer is ready to purchase a vehicle, the system aids the dealership in completing the sale through features such as inventory search and forms printing. Management is able to view dealership traffic in real-time, by salesperson, and can easily pinpoint deficiencies in the capture and follow up process.

Web DA™ allows automobile dealers to capture a customer's contact and vehicle information, purchasing requirements, and gives dealership personnel the ability to search inventory at multiple locations in their Dealer Management System, to locate a vehicle in stock, and print out the necessary forms to complete a sale or lease. Through the integrated CRM application, the system sends detailed tasks for prospect and customer follow-up on a sales and management level that increase the likelihood that a customer will become a repeat customer. Web DA™ administrators can produce activity and scoreboard reports to measure compliance and dealership data. The software allows sales professionals to capture customer leads quickly, improve customer follow-up, and reduce administrative costs.

In addition, we host a web application software system that enables users to securely access the system from any web browser after being granted an account with a username and password. All data that is entered onto the application is archived and easily retrieved from the database that we also host as part of the product offering. All client data is protected and is only accessible by their selected staff members. Additionally we provide a driver's license scanning station for easy capture of client data.

We estimate that the market for our CRM software to be approximately 20,000 dealerships. Our competitors include the ADP Dealer Services division of Automatic Data Processing, Inc., The Cobalt Group, AutoManager, and Autobase, Inc., among others. These companies all possess financial, technological and human resources far greater than ours, as well as established reputations, that afford them a substantial competitive advantage. We believe, without assurance, that our unique proprietary technology and design features can enable us to become competitive in the marketplace.

Customers pay a one-time initial payment and monthly recurring license fees for either a one, two or three year term. Each installation is expected to generate approximately \$20,000 per year in revenue. We have thirteen customers, including eleven Web DA™ customers. Additional Web DA™ installations are pending. At the end of 2006, we had 32 customers, a decline from 83 at the end of 2005. These declines resulted from non-renewal of expired contracts for our old non-web based product.

We are attempting to capture the critical mass necessary to quickly ramp up our sales. As a result of contacts we made at the 2008 National Auto Dealers Convention and Exposition in San Francisco in February 2008 we are extending our internal sales force with other distribution arrangements. Since then, we have added a non-exclusive sales representative in Arizona, Colorado, Indiana, Michigan, New Mexico and Ohio and we added a non-exclusive North American sales representative. We are also negotiating a proposed agreement pending with a software developer in Calgary, Alberta, to bundle Web DA™ with its inventory systems for auto dealers.

We have a trademark for DealerAdvance™ and have one patent pending covering the system for management of information flow in automotive dealerships using hand held technology.

We were incorporated in Nevada in 2000. Until 2006, we had a wholly owned subsidiary, Stronghold Technologies, Inc., a New Jersey Corporation, that developed hand held wireless technology for the automotive dealer market. The subsidiary's business was unsuccessful, it ceased operations and filed for bankruptcy protection under Chapter 7 of the United States Bankruptcy Code. The assets of the subsidiary were liquidated, and its debts discharged, including all court judgments and an arbitration award. The bankruptcy case was closed on January 29, 2008.

Item 1A. Risk Factors.

No Applicable.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Property.

We sublease our offices and equipment on a month-to-month basis for \$6,750 per month under a turnkey arrangement with a limited liability company owned and controlled by our Chief Executive Officer and our Vice President - Marketing and Sales. See Item 13. *Certain Relationships and Related Transactions and Director Independence - Transactions with Directors, Officers and Principal Shareholders.*

Item 3. Legal Proceedings.

There are no material pending legal proceedings against us, and no material pending legal proceedings known to be contemplated by governmental authorities.

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

None.

PART II**Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.***Market Prices, Number of Shareholders and Dividends*

Our Common Stock is traded on the OTC Bulletin Board under the symbol "DLAV". The following table sets forth the high and low bid prices of our Common Stock, as reported by the OTCBB for each quarter since January 1, 2006, per Bloomberg.com.

Year	Quarter	Bid Price	
		High	Low
2008	First	\$.00431	\$.001
	Second (through April 12, 2008)	\$.00131	\$.001
2007	First	\$.009	\$.001
	Second	\$.006	\$.0005
	Third	\$.00381	\$.0005
	Fourth	\$.029	\$.0005
2006	First	\$.230	\$.002
	Second	\$.025	\$.011
	Third	\$.015	\$.004
	Fourth	\$.013	\$.00119

We have approximately 90 shareholders of record and an unknown number that hold shares in street name.

No dividends were declared since December 31, 2006. We presently intend to retain our earnings to fund development of our business. Decisions concerning dividend payments in the future will depend on income and cash requirements. Holders of common stock are entitled to receive such dividends as may be declared by our board of directors. There are no contractual restrictions on our ability to pay dividends to our shareholders.

Securities authorized for issuance under equity compensation plans.

The following is provided with respect to compensation plans (including individual compensation arrangements) under which equity securities are authorized for issuance as of the fiscal year ending December 31, 2007.

Equity Compensation Plan Information

Number of securities to be issued upon exercise of outstanding options, warrants	Weighted-average exercise price of	Number of securities remaining available for future issuance under equity compensation plans (excluding

Plan category	and rights (a)	outstanding options, warrants and rights (b)	securities reflected in column (a) (c)
Equity compensation plans approved by security holders	24,000,000	N/A	4,000,000
Equity compensation plans not approved by security holders	-0-	N/A	N/A
Total	24,000,000	N/A	-0-

Figures in the table refer to our 2007 Incentive Stock Plan and 2007-2 Incentive Stock Plan, under which 20,000,000 shares of Common Stock have been issued pursuant to stock awards aggregating 18,000,000 shares and the exercise of 2,000,000 options. Please refer to Item 11. *Executive Compensation - Equity Compensation Plans*, for additional information regarding up to 50,000,000 shares authorized for issuance under our 2008 Stock Award Plan, of which 11,800,000 shares have been issued in 2008 pursuant to stock awards, and 38,200,000 shares remain available for future issuance, and 75,000,000 shares awarded in 2008 to our chief executive officer. Our shareholders have not approved the 2008 Stock Award Plan.

In 2008 we also issued 25,000,000 shares issued for legal services and 50,000,000 shares for business development consulting services in the first quarter of 2008 to two consultants under equity compensation plans that were not approved by security holders. There are no shares remaining to be issued under these plans.

Recent Sales of Unregistered Securities

In 2007 we issued 1,437,392 shares of Common Stock to an investor upon the conversion of Class D Convertible Preferred Stock that he held.

As of April 2, 2008, we have issued 5,971,541 shares of Common Stock to two investors upon the conversion of Class D Convertible Preferred Stock that they held, and 75,000,000 shares for services to our Chief Executive Officer as described in *Item 11. Executive Compensation - Compensation and Other Employment-Related Agreements with Management.*

Since December 2006 we sold additional convertible notes and warrants to certain purchasers in the transactions described in *incertain Relationships and Related Transactions and Director Independence - Securities Purchase Agreements.*

We relied on the exemptions from registration afforded by Section (2) of the Securities Act of 1933 and Rule 506 of Regulation D of the General Rules and Regulations thereunder for the sales of shares to investors and the sale of the convertible notes and warrants and the shares issued to pay debt and for services. We complied with the manner of sale, access to information and investor accreditation requirements of such exemptions.

Item 6. Selected Financial Data.

Not Applicable.

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

Plan of Operation for 2008

Our operating activities have not yet generated a positive cash flow. We do not expect that they will generate a positive cash flow by the end of 2008 because our expenses far exceed sales. We will require financing in excess of \$1,500,000 from external sources in 2008 in order to be able to continue in operation as a going concern and we would like to obtain additional financing for a proposed acquisition of a software company to complement our operations. There can be no assurance that we can attract financing in order to fulfill our requirements.

In 2004, we entered into an agreement that has to date provided \$9,604,807 from the sale of convertible notes to an investment group. The proceeds were used to develop our previous product, our new web-based software, and as working capital for operating expenses and accounts payable. We do not expect the investment group to provide additional financing. As of April 2, 2008, the investment group has converted to stock \$102,777 of the notes. The aggregate outstanding principal amount of the remaining convertible notes was \$9,502,030 as of that date. We believe without assurance that the investment group will continue to convert the rest of the notes to stock. However, the rate of conversion has slowed as a result of the decrease in our stock price, to which the rate of conversion is tied. It is not likely that all of the remaining debt will be converted. Certain notes are past due and in technical default.

In the second half of 2006, we relocated to our present officers and new executive, financial and sales management was installed. We redirected our development and marketing efforts to our new web-based application software for conventional desktop and laptop computers and, beginning in March 2007, to UMPC's. For that purpose, we added a Chief Information Officer, a development and technical support staff, and a marketing and sales staff. That increased our selling, general and administrative expenses. Notwithstanding these changes, there has been a decline in sales. Web DA™ has not yet achieved broad market acceptance, although we expect that it will in 2008-9. We believe, without assurance, that we are gaining position with the appropriate product, marketing network and approach, management, and other personnel to attain a niche in the CRM software market for auto dealers. Given our vulnerable financial condition, there can be no assurance that during this turnaround we can retain our key personnel, implement our business plan and become profitable.

Our plan of operation for the remainder of fiscal 2008 is as follows:

To increase sales of Web DA™, in part by supplementing our internal sales force with outside distribution arrangements;

To complete development of Web DA™ 1.5 for release;

To acquire other complimentary software companies; and,

To obtain additional debt and equity financing to fund our working capital deficiency.

To date our operations have not been self-sustaining. Additional liquidity and capital resources will be necessary to defray our ongoing expenses that have risen significantly, while revenue decreased in 2007 and for the year to date. In the event we are unable to refinance our indebtedness, obtain additional liquidity through the sale of additional convertible notes or stock, and, ultimately, to repay, refinance or restructure our indebtedness, we may have to file for protection under the federal bankruptcy laws and we may be unable to continue in operation as a going concern.

Our independent registered public accounting firm issued a report to the effect that certain conditions raise substantial doubt about our ability to continue as a going concern because we incurred recurring losses and had substantial working capital and stockholder's deficits and negative cash flow from operations. We continue to have net losses. Should we be unable to implement our plan of operation, our expansion plans may be curtailed, and we may not be able to continue in operation.

Financial condition at December 31, 2006 and 2007

December 31, 2007. Stockholders' deficit was \$16,950,266 and we had a working capital deficiency of \$12,216,247. Principal sources of liquidity in 2007 included net proceeds of \$1,950,000 from the sale of convertible notes and \$197,524 in gross profit from operations.

December 31, 2006. Stockholders' deficit was \$12,304,159 and working capital deficiency was \$7,898,243. Principal sources of liquidity in 2006 included the sale of \$2,080,000 in convertible notes and \$408,141 in gross profit from operations.

Results of operations - December 31, 2006 and 2007

Loss from operations decreased to \$2,095,157 in 2007 from \$2,109,242 in 2006 as a result of decreased revenue and increases in general and administrative expenses. Revenue decreased to \$232,079 in 2007 from \$479,474 in 2006. The expiration of contracts for our old non-web based system accounted for most of the decrease. Selling, general and administrative expenses decreased to \$2,226,751 in 2007 from \$2,517,383 in 2006. We incurred research and development expense of \$65,930 in 2007, we did not have this expense in 2006.

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Interest expense increased to \$944,128 in 2007 from \$911,721 in 2006. Interest expense resulted mainly from the issuance of additional convertible notes and the conversion of convertible notes. Overall net loss increased from \$4,443,627 in 2006 to \$4,722,436 in 2007 as a result of the increase in loss from operations and the increase in interest expense.

Results of operations - December 31, 2005 and 2006

Loss from operations remained approximately the same: \$2,109,242 in 2006 from \$2,113,579 in 2005 as a result of decreased general and administrative expenses that offset decreased revenue. Revenue decreased to \$479,474 in 2006 from \$943,735 in 2005. The expiration of contract