

HIRERIGHT INC
Form S-1/A
July 10, 2007

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As filed with the Securities and Exchange Commission on July 10, 2007

Registration No. 333-140613

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 3 TO FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

HIRERIGHT, INC.

(Exact Name of Registrant as Specified in Its Charter)

California
(State or Other Jurisdiction of
Incorporation or Organization)

7374
(Primary Standard Industrial
Classification Number)
5151 California Avenue
Irvine, CA 92617
(949) 428-5800

33-0465016
(I.R.S. Employer
Identification No.)

(Address, Including Zip Code and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Jeffrey A. Wahba
Chief Financial Officer
HireRight, Inc.
5151 California Avenue
Irvine, CA 92617
(949) 428-5800

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

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Approximate date of commencement of proposed sale to the public:

As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee
Common Stock, \$0.01 par value	\$86,250,000	\$9,229(3)

- (1) Includes the offering price attributable to shares that the Underwriters have the option to purchase solely to cover over-allotments, if any.
- (2) Estimated solely for the purpose of computing the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.
- (3) Previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. Neither we nor the selling stockholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JULY 10, 2007

4,375,000 Shares

Common Stock

Prior to this offering, there has been no public market for our common stock. The initial public offering price of our common stock is expected to be between \$15.00 and \$17.00 per share. We have applied to list our common stock on The NASDAQ Global Market under the symbol "HIRE."

We are selling 2,954,115 shares of our common stock and the selling stockholders identified in this prospectus are selling an additional 1,420,885 shares of our common stock. We will not receive any of the proceeds from the shares of common stock sold by the selling stockholders.

The underwriters have an option to purchase a maximum of 526,176 additional shares from us and 130,074 additional shares from the selling stockholders to cover over-allotments of shares.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 7.

	<u>Price to Public</u>	<u>Underwriting Discounts and Commissions</u>	<u>Proceeds to HireRight</u>	<u>Proceeds to Selling Stockholders</u>
Per Share	\$	\$	\$	\$
Total	\$	\$	\$	\$

Delivery of the shares of common stock will be made on or about _____, 2007.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse

Robert W. Baird & Co.

CIBC World Markets

Piper Jaffray

William Blair & Company

The date of this prospectus is

, 2007.

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You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

Dealer Prospectus Delivery Obligation

Until _____, 2007 (25 days after commencement of this offering), all dealers selling shares of our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

PROSPECTUS SUMMARY

This summary highlights selected information contained in greater detail elsewhere in this prospectus and does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, especially the risks of investing in our common stock, which we discuss under "Risk Factors," and our consolidated financial statements and related notes. Except as otherwise indicated, the market data and industry statistics in this prospectus are based upon independent industry publications and other publicly available information.

Our Company

We are a leading provider of on-demand employment screening solutions. Our customers use our comprehensive screening services in conjunction with our web-based software applications to conduct and manage their employment screening programs efficiently and effectively, make more informed employment decisions, improve workplace safety and mitigate risk. We offer a comprehensive set of background screening services including criminal, motor vehicle and other public records searches, employment, education and professional license verifications and credit checks, as well as drug and health screening services. During 2006, we processed approximately 4.8 million distinct records searches, verifications, checks and screens for our customers.

Our screening solutions are comprised of a suite of software applications, a comprehensive set of screening services and a proprietary information processing engine. We believe our screening solutions deliver faster results, provide greater convenience and ease-of-use, and enable our customers to effectively manage complex screening programs, providing them with significant time and cost savings. We deliver fast results primarily through our extensive use of automation in executing screening requests and our integration with information sources. We offer convenience and ease-of-use by providing screening solutions that address a wide range of screening program needs, by automating many of the manual processes associated with screening and by offering solutions that are fully integrated with our customers' recruiting software applications. We enable our customers to effectively manage the complexities inherent in employment screening programs by providing subject matter and solution expertise and robust, configurable software applications that facilitate effective program management, monitoring and control.

We serve a diverse customer base in a variety of industries, such as business services, technology, healthcare, manufacturing, telecommunications and financial services. During 2006, we served more than 1,400 customers, which included 17 of the Fortune 100 companies and 53 of the Fortune 500 companies. In 2006, we also provided screening solutions to approximately 1,300 of our customers' third-party suppliers and contractors through our supplier screening solutions, including our Extended Workforce Screening Solution, which was named one of Human Resource Executive Magazine's 2006 Top HR Products of the Year.

Our Industry

The background screening market is highly fragmented and represents a large market opportunity. According to a 2004 presentation by the National Association of Professional Background Screeners, the background screening market at that time was estimated to be \$4.0 billion in size and to consist of more than 1,000 screening firms.

We believe that demand for background screening solutions is growing as a result of several factors, including increased public awareness of potential security threats as well as the numerous highly publicized incidents of violence in the workplace. Additionally, governments and other regulatory bodies have established processes and procedures to identify and minimize potential threats, many of which include obtaining background information on individuals. Companies have also sought to

establish new, or enhance their existing, screening programs to improve workplace safety and better protect themselves from negligent hiring claims.

Demand for employment screening solutions is also driven and influenced by trends in related markets. Leading human resource outsourcing, or HRO, providers have increasingly looked to collaborate with other service providers, including background screening providers, to offer a comprehensive solution to potential customers. Additionally, companies and HRO providers have increasingly sought to address the inefficiency and inconsistency associated with manual recruiting and hiring processes, contributing to the evolution and increasing adoption of human resource management systems and recruiting software applications. As adoption of these software applications continues to increase, we believe that an increasing number of customers will seek to integrate their employment screening solution with these applications, thereby driving increased volume of screening transactions towards those employment screening providers that provide integrated solutions.

Our Competitive Strengths

We consider the following to be our key competitive strengths:

Comprehensive Screening Solutions. We provide more than 50 screening services and a suite of software applications that our customers can use to screen their entire permanent and extended workforce across multiple, diverse geographies in a wide variety of industries.

Superior User Experience. Our web-based software applications enable our customers to efficiently and effectively manage the complexities inherent in employment screening programs. Our solutions enhance our customers' execution of their screening programs by eliminating duplicative steps in the process, seamlessly integrating with our customers' recruiting software applications, utilizing an intuitive, user-friendly interface and providing consolidated reports.

Scalable, Proprietary Information Processing Engine. Our proprietary information processing engine is a key component of our screening solution as it allows us to automate and manage a large number of complex screening requests concurrently and to deliver a wide range of screening services in a fast, accurate and cost-effective manner.

Extensive Network of Strategic Alliances with Industry Leaders. We have established strategic alliances with a network of recruiting software application and HRO providers, which provide valuable sales and marketing support and allow us to offer differentiated, pre-integrated screening solutions.

Proven Track Record of Success with Large Enterprises. We believe that our record of success in serving large, complex enterprises is a key competitive advantage. The size and diversity of these customers, combined with the longevity of our relationships with many of them, demonstrates our ability to handle complex screening program challenges.

Strong, Experienced Management Team. Our management team is led by Eric J. Boden, our President, Chief Executive Officer and Chairman, and Jeffrey A. Wahba, our Chief Financial Officer, who collectively possess over 50 years of leadership and financial management experience. We have expanded our management team significantly over the last three years in order to establish the management infrastructure necessary to pursue our growth objectives.

Our Growth Strategy

We intend to pursue the following strategies to capitalize on our position of leadership in the employment screening market:

Increase Penetration of the Large Enterprise Market. We believe that our employment screening solutions are highly effective in servicing the complex screening needs of large enterprises, as evidenced

by the number of large enterprises that currently utilize our solutions. We intend to pursue additional large enterprise customers by continuing to invest in and expand our direct sales and marketing efforts, as well as by pursuing opportunities developed through our strategic alliances with leading recruiting software application and HRO providers.

Further Penetrate Our Existing Customer Base. We intend to continue to increase the array of employment screening solutions that we provide to our existing customers. Primarily through our Account Management team, we work closely with existing customers to identify opportunities to screen additional individuals and expand the breadth of screening services and software applications utilized, in order to improve the effectiveness of their screening programs.

Continue to Enhance Our Market Position in the Small and Midsize Business, or SMB, Market. Our screening solutions are designed to have the flexibility to effectively meet the screening needs of SMBs. We currently serve many SMB customers and intend to continue to pursue opportunities with SMBs through a dedicated SMB sales force, as well as through our strategic alliances.

Develop Offerings for Non-Employment Screening. We intend to leverage our expertise in providing effective employment screening solutions to develop and offer non-employment screening solutions. These solutions may include screening solutions designed to mitigate risk associated with the establishment of business relationships and other non-employment screening applications such as tenant screening for rental properties, student screening for admissions, and screening of consumer service providers.

Selectively Pursue Acquisition Opportunities. We intend to selectively consider acquisitions that enhance the breadth of our screening solutions by adding new screening services or additional functionality, that further establish our presence either domestically or internationally, or that allow us to add complementary products or services to our offerings.

Corporate Information

We were incorporated in California in 1990 and will reincorporate in Delaware prior to the completion of this offering. Our executive offices are located at 5151 California Avenue, Irvine, California 92617 and our telephone number is (949) 428-5800. Our corporate website is at www.hireright.com. The information contained in, or that can be accessed through, our website does not constitute a part of this prospectus. Unless the context requires otherwise, as used in this prospectus, the terms "HireRight," "we," "us" and "our" refer to HireRight, Inc. and its subsidiary, HireRight Estonia AS. HireRight®, HireRight Enterprise , Extended Workforce Screening Solution and Employment Application Solution are our United States trademarks. All other trademarks and trade names appearing in this prospectus are the property of their respective owners.

The Offering

Common stock offered by us	2,954,115 shares
Common stock offered by the selling stockholders	1,420,885 shares
Total common stock offered	4,375,000 shares
Common stock to be outstanding after this offering	11,221,898 shares
Proposed NASDAQ Global Market symbol	HIRE

Use of proceeds As described in "Use of Proceeds," we intend to use the net proceeds to us from this offering for working capital and other general corporate purposes, including to expand our sales and marketing activities, develop new service offerings and expand our international operations. In addition, we may use a portion of the net proceeds for acquisitions of, or investments in, businesses, products or technologies that enhance or add new services or additional functionality, further solidify our market position or allow us to offer complementary products, services or technologies.

We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

Risk factors See "Risk Factors" and the other information included in this prospectus for a discussion of factors you should consider carefully before investing in shares of our common stock.

The number of shares of common stock outstanding after this offering is based on 8,267,783 shares outstanding as of June 30, 2007 (which includes 76,417 shares issuable upon exercise of a warrant held by a selling stockholder, which shares will be sold by the selling stockholder in this offering), and does not include:

1,054,884 shares of common stock issuable upon the exercise of options outstanding as of June 30, 2007, at a weighted average exercise price of \$3.85 per share;

397,655 shares of common stock issuable upon the exercise of other warrants outstanding as of June 30, 2007, at a weighted average exercise price of \$3.20 per share;

183,228 shares of common stock reserved for future grant or issuance as of June 30, 2007 under our 2000 Stock Option/Stock Issuance Plan; and

shares of common stock reserved for future grant or issuance under our 2007 Long-Term Incentive Plan and shares of common stock reserved for purchase under our 2007 Employee Stock Purchase Plan, both expected to be adopted prior to the completion of this offering.

Unless otherwise indicated, all information in this prospectus assumes:

a 1-for-4.5 reverse stock split effected in 2007;

the conversion of all of our outstanding preferred stock into an aggregate of 6,201,142 shares of common stock upon the closing of this offering;

the underwriters will not exercise their over-allotment option to purchase up to 526,176 additional shares of common stock from us and up to 130,074 additional shares of common stock from the selling stockholders;

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the exercise by a selling stockholder of a warrant to purchase 76,417 shares of common stock immediately prior to the closing of the offering, and assumes no other person will exercise any other outstanding options or warrants; and

our reincorporation as a Delaware corporation, upon the approval of our stockholders, prior to the completion of this offering.

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Summary Consolidated Financial Data

The following tables set forth a summary of our consolidated financial data for the periods presented and should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes appearing elsewhere in this prospectus.

	Year Ended December 31,			Three Months Ended March 31,	
	2004	2005	2006	2006	2007
(in thousands, except per share data)					
Consolidated Statement of Operations Data:					
Revenue:					
Service revenue	\$ 28,524	\$ 38,387	\$ 52,453	\$ 11,628	\$ 14,515
Reimbursed fee revenue	3,255	4,666	5,644	1,419	1,505
Total revenue	31,779	43,053	58,097	13,047	16,020
Cost of revenue:					
Cost of service revenue	17,501	22,268	26,101	5,980	7,016(1)
Reimbursed fees paid	3,255	4,666	5,644	1,419	1,505
Total cost of revenue	20,756	26,934	31,745	7,399	8,521
Gross profit	11,023	16,119	26,352	5,648	7,499
Operating expenses:					
Research and development	2,368	3,131	3,779(1)	861	909(1)
Sales and marketing	4,329	6,495	8,676(1)	1,756	2,379(1)
General and administrative	4,595	6,303	7,531(1)	1,606	2,287(1)
Total operating expenses	11,292	15,929	19,986	4,223	5,575
Income (loss) from operations	(269)	190	6,366	1,425	1,924
Other income (expense):					
Interest income (expense), net	(25)	(155)	86	(20)	91
Other expense, net	(45)	(13)	(27)	(4)	(1)
Total other income (expense), net	(70)	(168)	59	(24)	90
Income (loss) before income taxes	(339)	22	6,425	1,401	2,014
Income tax provision (benefit)	2	1	(4,469)(2)		837
Net income (loss)	\$ (341)	\$ 21	\$ 10,894	\$ 1,401	\$ 1,177
Net income (loss) allocable to common stockholders	\$ (341)	\$ 0	\$ 2,023	\$ 192	\$ 153
Net income (loss) per share allocable to common stockholders:					
Basic	\$ (0.23)	\$ 0.00	\$ 1.12	\$ 0.11	\$ 0.08
Diluted	\$ (0.23)	\$ 0.00	\$ 0.73	\$ 0.08	\$ 0.05
Weighted average common and common equivalent shares:					
Shares used in computation of basic net income (loss) per share allocable to common stockholders	1,490	1,617	1,811	1,690	1,957

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	Year Ended December 31,			Three Months Ended March 31,	
Shares used in computation of diluted net income (loss) per share allocable to common stockholders	1,490	1,617	2,766	2,432	3,036
Pro forma basic net income per share(3):					
Basic			\$ 1.36	\$ 0.14	
Diluted			\$ 1.21	\$ 0.13	
Pro forma weighted average common and common equivalent shares(3):					
Basic			8,012	8,158	
Diluted			8,967	9,237	

(footnotes on next page)

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	Year Ended December 31,			Three Months Ended March 31,	
	2004	2005	2006	2006	2007
	(in thousands)				

Other Data:

Depreciation and amortization	\$ 820	\$ 1,061	\$ 1,078	\$ 302	\$ 302
Net cash provided by (used in) operating activities	(373)	388	9,483	1,703	860
Capital expenditures	913	686	1,435	376	563
	As of March 31, 2007				

	Actual	Pro Forma(4)(6)	Pro Forma As Adjusted(5)(6)
	(in thousands)		

Consolidated Balance Sheet Data:

Cash and cash equivalents	\$ 3,117	\$ 3,117	\$ 46,591
Total assets	26,180	26,180	68,911
Total debt	4	4	4
Total stockholders' (deficit) equity	(7,459)	17,721	60,452

- (1) Includes stock-based compensation expense recognized under SFAS 123(R) as follows:

	Year Ended December 31, 2006	Three Months Ended March 31, 2007
	(in thousands)	
Cost of service revenue	\$ 13	\$ 8
Research and development expense	14	7
Sales and marketing expense	33	22
General and administrative expense	184	40
Total stock-based compensation expense	\$ 244	\$ 77

In accordance with the prospective transition method provided under SFAS 123(R), our consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R).

- (2) Reflects the reversal of the valuation allowance applied to net deferred tax assets for the year ended December 31, 2006.
- (3) See discussion of pro forma basic and diluted net income per share in Note 15 of our consolidated financial statements.
- (4) Reflects on a pro forma basis the conversion of all of our outstanding preferred stock into an aggregate of 6,201,142 shares of common stock.
- (5)

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Gives effect to (i) the conversion of all of our outstanding preferred stock into 6,201,142 shares of our common stock upon the closing of this offering, (ii) the exercise of a warrant to purchase 76,417 shares of our common stock at an exercise price of \$3.18 per share by a selling stockholder, which shares will be sold in this offering by the selling stockholder, and (iii) the receipt of the estimated proceeds from the sale of the 2,954,115 shares offered by us in this offering at the assumed initial offering price of \$16.00 per share, which is the midpoint of the range set forth on the cover page of this prospectus, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. Each \$1.00 increase in the assumed offering price of \$16.00 per share would increase total assets and cash and cash equivalents by \$2.7 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same. Each \$1.00 decrease in the assumed offering price of \$16.00 per share would decrease total assets and cash and cash equivalents by \$2.7 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same. Similarly, any increase or decrease in the number of shares that we sell in the offering will increase or decrease our proceeds by such increase or decrease, as applicable, multiplied by the offering price per share, less underwriting discounts and commissions and offering expenses.

(6)

The unaudited consolidated pro forma and pro forma as adjusted balance sheet data are presented for informational purposes only and do not purport to represent what our financial position actually would have been had the transactions so described occurred on the dates indicated or to project our financial position as of any future date.

RISK FACTORS

You should carefully consider the following risks before you decide to purchase our common stock. If any of the following risks actually occur, our business, financial condition, results of operations or cash flow could be materially adversely affected, the value of our common stock could decline and you may lose all or part of your investment.

Risks Related to Our Business

We are subject to significant governmental regulation, and a failure to correctly identify, interpret, comply with and reconcile the laws and regulations to which we are subject could result in substantial liability.

Because we are considered to be a consumer reporting agency and we deal primarily in searching and reporting public and non-public consumer information and records, and performing third-party administrative services for employment-related drug screening and other occupational testing, we are subject or vulnerable to extensive and often complex governmental laws and regulations, such as the Fair Credit Reporting Act, or FCRA, Drivers' Privacy Protection Act, state consumer reporting agency laws, state private investigator licensing regulations, Department of Transportation regulations and various other foreign, federal, state and local laws and regulations. Among other things, such laws restrict access to, use and disclosure of certain types of personal information and regulate the storage and disposal of such information. Identifying, interpreting and complying with foreign laws and regulations is particularly difficult due to the broad range of foreign laws and regulations, as well as uncertainties with respect to the applicability and interpretation of such laws and regulations. For example, with respect to our services provided in the European Union and its member countries, although we have qualified for a safe harbor certification available for U.S. companies for the transmission of the personal information that we collect under the jurisdiction of the European Union, uncertainty remains as to the other laws and regulations of the specific member countries which may also apply to our operations in those countries. Failure to comply with these domestic and foreign laws and regulations, to the extent applicable, may harm our reputation and result in the imposition of civil and criminal penalties and fines, restrictions on our operations, and breach of contract or indemnification claims by our customers and data suppliers.

In addition to the challenges of identifying, interpreting and complying with such laws and regulations, and changes to such laws and regulations over time, we face the challenge of reconciling the many potential conflicts between such laws and regulations among the various domestic and international jurisdictions that may be involved in the provision of our services. These challenges may require us to incur additional compliance costs. A failure to correctly identify, interpret, comply with and reconcile the laws and regulations to which we are subject could result in substantial liability and could have a material adverse effect on us. The expansion of our business into areas other than employment screening may require compliance with additional laws and regulations.

Evolving or increased regulations, particularly those related to the use of personal information, may lead to additional expense, restrictions and loss of revenue, which could have a material adverse effect on our business.

Changes to existing laws and regulations relating to our business, interpretations of those laws and regulations or their applicability to us, or the adoption of applicable new laws and regulations could result in additional regulatory compliance requirements or our incurring increasing or substantial regulatory compliance expense, litigation expense or loss of revenue. For example, certain information and services we provide are subject to regulation by various federal, state and local laws and regulations in the United States designed to protect the privacy of the public and to prevent the misuse of personal information in the marketplace. Many consumer advocates, privacy advocates, and government regulators have become increasingly concerned with the use of personal information, particularly social security numbers, department of motor vehicle data and dates of birth, which are

extensively used in our search protocols. Since 2001, more than 30 states have enacted new laws to protect personal information or to give consumers more information about how their personal information is used, and lobbying efforts are underway for further restrictions on the dissemination or commercial use of personal information by the public and private sectors. In particular, following publicity surrounding the loss by various high profile public companies of extensive archives of sensitive personal information, and incidents of fraudulent data access through consumer reporting agencies, a number of laws have been enacted or proposed at state and federal levels. Increased regulation in the area of data privacy, and laws and regulations applying to the solicitation, collection, processing or use of personal or consumer information, could have a material adverse effect on our ability to collect or process information or our costs related to collecting and providing information. Any such restriction or additional cost could limit our service offerings, reduce our profitability or otherwise materially and adversely affect our ability to conduct our business, or to do so economically.

We could face liability based on the nature of our services and the information we report, which may not be covered or fully covered by insurance.

We face potential liability from individuals, classes of individuals, customers or regulatory bodies for claims based on the nature, content or accuracy of our services and the information used and reported by us. This potential liability includes claims of non-compliance with laws and regulations governing our services and claims of defamation, invasion of privacy, negligence, copyright, patent or trademark infringement. In some cases such liability may be strict liability. The potential for us to be named in lawsuits may increase depending in part on our customers' compliance with FCRA, other state consumer reporting agency regulations and applicable employment laws in their procurement and use of our screening reports, which actions may be outside of our control.

From time to time, we have been subject to lawsuits by potential employees of our customers, alleging that we provided to our customers inaccurate or improper information that negatively impacted the customers' hiring decisions. Although the resolutions of these lawsuits have not had a material adverse effect on us to date, such claims could divert the attention of our management, could subject us to equitable remedies relating to the operation of our business and provision of services and result in significant legal expenses, all of which could have a material adverse effect on our business, financial condition and results of operations. Insurance may not be adequate to cover us for all risks to which we are exposed or may not be available to cover these claims at all. For example, punitive damages, which generally are not covered by insurance, is a remedy available under the Fair Credit Reporting Act to consumers for the failure to comply with the FCRA. Any imposition of liability, particularly liability that is not covered by insurance or is in excess of our insurance coverage, could have a material adverse effect on our business, financial condition or results of operations.

We could face liability based on information that we fail to report in our background screening reports, which may not be covered or fully covered by insurance.

We may face potential liability from our customers, and possibly damaged third parties, in the event we fail to report information, particularly criminal records or other potentially negative information. For example, should we fail to identify and report an available and reportable criminal felony record which our customer hired us to report, or should we fail to correctly report such information to our customer, then we may face potential liability in the event that the employer hires such applicant, later discovers such record, terminates such employee and is in turn sued by such employee. We may also face liability in the event the employer hires such applicant and that employee then causes personal or monetary injury or damage to the employer, its other employees or other related third parties. The adverse publicity from any such event, as well as the liability to which we may be subject, could have a material adverse effect on our business and financial results. In addition, an imposition of liability that is not covered by insurance or that is in excess of our insurance coverage, could have a material adverse effect on our business, financial condition or results of operations.

We may be required to indemnify our customers or data suppliers, which could have a material adverse effect on our financial condition and operating results to the extent such claims are not covered by insurance.

Some of our customer and supplier contracts contain indemnification provisions that require us to indemnify our customers and suppliers against certain claims, including claims for improper use of information, non-compliance with laws and regulations applicable to our services and intellectual property infringement. To the extent these claims are successful and are not covered by or exceed our insurance coverage, these obligations could have a material adverse impact on our cash flow, results of operation and financial condition.

Our business, financial condition and results of operations could be materially adversely affected by a downturn in the general economy.

The substantial majority of our revenues are derived from pre-employment screening services. A general economic downturn could result in a reduced demand for our services, as our revenues are dependent upon general economic and hiring conditions and upon conditions in the industries served by us. To the extent that the economy in general or labor market conditions in particular deteriorate, our existing and potential customers may slow or defer hiring new or replacement employees, and may be reluctant to increase expenditures on those employees they do screen. This could interfere with our growth strategy of increasing the number of background screens performed by, and average revenue per order of, our customer base, and could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to successfully manage our relationships with third-party providers of complementary products and services, including human resource outsourcing providers and recruiting software application providers, we may lose referral sources or may no longer be able to integrate with their systems, either of which could have a material adverse effect on our business.

We have arrangements with human resource outsourcing, or HRO, providers and providers of recruiting software applications, which provide us a source of customer referrals and may allow us to integrate our services with these providers and our mutual customers. If our agreements with such providers are terminated, we may lose these referral sources, our sales cycle for certain new customers could increase and certain of our screening services may become less convenient for our customers. In addition, if these arrangements are terminated as a result of contract renegotiation or otherwise, we may lose the ability to integrate with the software applications of these companies. Our inability to integrate could jeopardize our relationship with existing customers or put us at a competitive disadvantage in obtaining new customers that require integration with the software applications of these companies. Some of these providers have begun or may begin, by acquisition or other affiliation, providing screening services themselves, and may elect to direct all or substantially all of their customers' business to themselves or their affiliated companies. In addition, should a provider update its products without providing sufficient notice to us, this could result in errors, delays and interruptions in providing services to our integrated customers. A termination of our arrangements with these third-party providers, or their refusal to refer customers to us, could have a material adverse effect on our business, financial condition and results of operations.

Security breaches and improper use of information may negatively impact our business and harm our reputation.

Our solutions involve the collection and transmission of confidential information of customers and their existing and potential employees. A security breach in our facilities, computer networks, or databases could expose us to a risk of loss of, or unauthorized access to and use of, this information, which could harm our business and reputation and result in a loss of customers or the imposition of fines or other penalties by governmental agencies and claims by our customers and their applicants and

employees. Despite security measures we maintain, our systems may be vulnerable to physical break-ins, computer viruses, attacks by hackers, employee malfeasance and similar intrusions, and our third-party contractors who handle information also may experience security breaches involving the storage and transmission of proprietary and sensitive personal information. If unauthorized parties gain access to our services or our networks or databases, or if authorized parties utilize our services for impermissible purposes, they may be able to steal, publish, delete or modify our confidential and sensitive third-party personal information. Any inability to protect the security and privacy of our data and electronic transactions, or any misuse of our information services by our customers, employees, vendors or hackers, could cause harm to our business and reputation and result in significant liability. Techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not discovered until they have been launched against a target. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures.

An actual or perceived breach of our security could have the following material and adverse effects:

deter customers from using our services and harm our reputation;

expose us to liability;

increase operating expenses to correct problems caused by the breach;

deter data suppliers from supplying information to us;

affect our ability to meet customers' expectations; or

cause inquiries from or sanctions and penalties by governmental authorities, such as the Federal Trade Commission, which has imposed significant penalties on companies that fail to adequately protect personal data, and states' attorneys general, who have authority to impose fines or penalties with respect to breaches under state laws.

We may be subject to and in violation of state private investigator licensing laws and regulations, which could adversely affect our ability to do business in certain states and subject us to liability.

The laws and regulations relating to private investigator licensing requirements vary among the states and are subject to differing interpretations. Failure to correctly interpret and comply with these laws and regulations may result in the imposition of penalties or restrictions on our ability to continue our operations in certain states if it is determined that they are applicable to us. In the past, we received cease and desist notices from three states, alleging that we were in violation of their respective private investigator licensing laws and regulations. We have also received inquiries from three other states. We are now licensed as a private investigator in the state of California; we are not licensed as a private investigator in any other state. The inquiries from two of the states have been resolved without the need for any further action. We have responded to these notices and inquiries and are currently in the process of applying for and obtaining private investigator licenses in the states which advised us to obtain such a license. We cannot assure you that we will be granted such licenses or that we will not receive additional inquiries from other state agencies. If we are required to cease or limit our operations or penalties or fines are imposed upon us in one or more states, it could have a material adverse effect on our business, financial condition and results of operations.

We are subject to significant competition, and if we fail to compete successfully, our sales could decline and our business, financial condition and results of operations could be adversely affected.

The industry in which we operate is and is expected to remain highly competitive. We compete on the basis of a number of factors, including: the technology-enabled, ease-of-use, level of functionality and end-to-end efficiency of our solution; our ability to integrate with customer systems and major software applications; the breadth and geographical reach of our service offerings; the speed of our

screening results; pricing and return on investment for our customers; and our successful track record and reference base with similarly situated companies. We compete with a variety of companies that provide a broad range of screening services, and some of these competitors are larger than we are and have more resources than we do, or are better financed than we are, have a greater global presence than we do, or provide more diversified services than we do. As a public company, our competitors will also have access to information about us and our business, while we may not have access to similar information about them. We compete with a diverse group of screening companies, ranging from large public companies such as ChoicePoint, Inc. and First Advantage Corp., or divisions of such large public companies, to many smaller privately-held regional companies. Due in part to their size and resources, certain competitors may be able to allocate greater resources than we can, and may be in a better position to anticipate and respond, to existing and changing customer preferences and requirements, emerging technologies and market trends. Some competitors also sell their data to us and may refuse to provide services to us or may charge us higher fees to reduce our competitive position. It is also possible that new competitors or alliances or consolidation among competitors may emerge and significantly increase competition. In addition, we face difficulties in competing for customers who already have long-standing relationships with other screening service providers, especially if the solutions provided by such competitors are already integrated into the customer's technology platform or hiring processes, which often create a barrier to switching providers and increase the employer's switching costs. If we fail to successfully compete, our business, financial position and results of operations could be materially and adversely affected.

Our contracts with our customers generally do not require that they use us exclusively and do not guarantee that we will receive any revenues from them.

We typically enter into multi-year contracts with our customers. These contracts generally do not require our customers to purchase any minimum amounts of services from us, and our customers generally are not contractually bound to use our services exclusively. Our customers can generally stop doing business with us for any reason at any time without notice or penalty. As such, we cannot assure you that new customers will commence ordering our services or that existing customers will continue to order our services, which could have a material adverse effect on our business, financial position and results of operations.

If we fail to successfully manage our growth, the additional demands and strain on us could have a material adverse effect on our business, financial condition and results of operations.

Growing our existing business or executing our business strategy may place significant demands on and strain our personnel and organizational structure, including our management, staff and information systems. To manage our growth successfully, we must maintain appropriate staffing levels and subject matter experts, and update our operating, financial and other systems, procedures and controls accordingly. If we fail to manage our growth effectively, our business, financial condition and results of operations could be materially adversely affected.

We may expand through acquisitions of, investments in, or strategic business relationships with, other organizations, all of which may divert our management's attention, result in additional dilution to our stockholders, consume resources that are necessary to sustain our business, and may not be successful.

One of our business strategies is to selectively pursue acquisitions of, investments in or strategic business relationships with, other companies that would complement our business and services. An acquisition, investment or business relationship may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the organizations, technologies, products, personnel or operations of the acquired or affiliated organizations, particularly if the key personnel of such organizations choose not to work for us. Additionally, we may have difficulty maintaining uniform standards, controls, procedures and policies across multiple organizations

and locations. Acquisitions, investments or business relationships may also disrupt our ongoing business, divert our resources and require significant management attention that would otherwise be available for the ongoing development of our business. We cannot assure you that the anticipated benefits of any acquisition, investment or business relationship would be realized or that we would not be exposed to unknown liabilities. For example, in the event we acquire an organization in part for its customer base, we may have difficulty retaining its customers and experience lower rates of renewal from those customers than we experience with our existing customers.

In connection with these transactions we may also:

issue additional equity securities that would dilute our existing stockholders' ownership;

use cash that we may need in the future to operate our business;

incur debt on terms unfavorable to us or that we are unable to repay; and

incur large accounting charges or substantial tax or other liabilities.

Although we periodically engage in preliminary discussions with respect to acquisitions of, or investments in, other businesses, we are not currently a party to any agreement or commitment, and we have no understandings with respect to any such transactions.

Our international screening business, as well as maintaining our technology development operations outside the United States, subjects us to a broad range of laws and regulations that may be difficult to manage and could expose us to numerous risks that, individually or together, could materially and adversely affect our business.

In 2006, we performed screening services in approximately 200 countries and territories worldwide, primarily for U.S.-based, multinational organizations, as well as for a small number of companies headquartered outside of the United States. We expect to continue to provide screening services in a large number of countries worldwide and we intend to expand our international operations.