

TrueCar, Inc.  
Form 10-Q  
May 13, 2015  
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended March 31, 2015

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

Commission File Number: 001-36449

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TRUECAR, INC.

(Exact name of registrant as specified in its charter)

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Delaware	04 3807511
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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120 Broadway, Suite 200

Santa Monica, California 90401

(800) 200 2000

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer    Accelerated filer    Non accelerated filer    Smaller reporting company  
(do not check if a  
smaller reporting company)

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

As of May 6, 2015, 81,942,072 shares of the registrant's common stock were outstanding.

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Table of Contents

TRUECAR, INC.

INDEX

	Page
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1. Condensed Consolidated Financial Statements (unaudited)</u>	
<u>Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014</u>	4
<u>Consolidated Statements of Comprehensive Loss for the Three Months Ended March 31, 2015 and 2014</u>	5
<u>Consolidated Statement of Stockholders' Equity for the Three Months Ended March 31, 2015</u>	6
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	32
<u>Item 4. Controls and Procedures</u>	32
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	34
<u>Item 1A. Risk Factors</u>	34
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	53
<u>Item 6. Exhibits</u>	54
<u>Signatures</u>	55

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our future financial performance, including our expectations regarding our revenue, cost of revenue, gross profit, operating expenses, ability to generate cash flow, and ability to achieve, and maintain, future profitability;
- our ability to anticipate market needs and develop new and enhanced products and services to meet those needs, and our ability to successfully monetize them;
- maintaining and expanding our nationwide network of TrueCar Certified Dealers;
- our anticipated growth and growth strategies and our ability to effectively manage that growth;
- our ability to drive adoption of our services by consumers;
- our ability to anticipate or adapt to future changes in our industry;
- our ability to hire and retain necessary qualified employees to expand our operations;
- our ability to adequately protect our intellectual property;
- our ability to successfully resolve litigation to which we are subject;
- our ability to stay abreast of new or modified laws and regulations that currently apply or become applicable to our business; and
- our liquidity and working capital requirements.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q.

You should not rely upon forward-looking statements as predictions of future events. We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described in the section titled “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties. Nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in the forward-looking statements contained in this Quarterly Report on Form 10-Q.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.



Table of Contents

TRUECAR, INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except par value and share data)

(Unaudited)

	March 31, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	\$ 143,069	\$ 147,539
Accounts receivable, net of allowances of \$2,263 and \$2,069 at March 31, 2015 and December 31, 2014, respectively (includes related party receivables of \$1,925 and \$1,865 at March 31, 2015 and December 31, 2014, respectively)	28,939	28,748
Prepaid expenses (includes related party prepaid expenses of \$806 and \$906 at March 31, 2015 and December 31, 2014, respectively)	4,585	5,193
Other current assets	1,081	3,040
Total current assets	177,674	184,520
Property and equipment, net	56,127	30,731
Goodwill	53,270	53,270
Intangible assets, net	26,914	27,949
Other assets	688	482
Total assets	\$ 314,673	\$ 296,952
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable (includes related party payables of \$5,079 and \$4,954 at March 31, 2015 and December 31, 2014, respectively)	\$ 12,339	\$ 12,826
Accrued employee expenses	6,839	14,245
Accrued expenses and other current liabilities	15,124	11,783
Total current liabilities	34,302	38,854
Deferred tax liabilities	2,448	2,245
Lease financing obligations, net of current portion	26,554	6,093
Other liabilities	626	562
Total liabilities	63,930	47,754
Commitments and contingencies (Note 7)		
Stockholders' Equity		
Preferred stock — \$0.0001 par value; 20,000,000 shares authorized at March 31, 2015 and December 31, 2014; no shares issued and outstanding at March 31, 2015 and December 31, 2014	—	—
Common stock — \$0.0001 par value; 1,000,000,000 shares authorized at March 31, 2015 and December 31, 2014; 81,660,918 and 79,811,769 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	8	8
Additional paid-in capital	473,347	460,179
Accumulated deficit	(222,612)	(210,989)

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Total stockholders' equity	250,743	249,198
Total liabilities and stockholders' equity	\$ 314,673	\$ 296,952

See accompanying notes to condensed consolidated financial statements.

Table of Contents

TRUECAR, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands except per share data)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Revenues	\$ 58,554	\$ 43,930
Costs and operating expenses:		
Cost of revenue (exclusive of depreciation and amortization presented separately below; includes related party expenses of \$0 and \$405 for three months ended March 31, 2015 and 2014, respectively)	5,791	3,720
Sales and marketing (includes related party expenses of \$3,918 and \$3,336 for the three months ended March 31, 2015 and 2014, respectively)	31,709	27,767
Technology and development	9,760	7,330
General and administrative	18,769	11,517
Depreciation and amortization	3,925	3,114
Total costs and operating expenses	69,954	53,448
Loss from operations	(11,400)	(9,518)
Interest income	20	17
Interest expense	(45)	(170)
Other income	11	—
Loss before provision for income taxes	(11,414)	(9,671)
Provision for income taxes	209	250
Net loss	\$ (11,623)	\$ (9,921)
Net loss per share, basic and diluted	\$ (0.14)	\$ (0.17)
Weighted average common shares outstanding, basic and diluted	80,461	60,102
Other comprehensive loss:		
Comprehensive loss	\$ (11,623)	\$ (9,921)

See accompanying notes to condensed consolidated financial statements.



Table of Contents

TRUECAR, INC.

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(in thousands except share data)

(Unaudited)

	Common Stock Shares	Amount	APIC	Accumulated Deficit	Stockholders' Equity
Balance at December 31, 2014	79,811,769	\$ 8	\$ 460,179	\$ (210,989)	\$ 249,198
Net loss	—	—	—	(11,623)	(11,623)
Stock-based compensation	—	—	9,784	—	9,784
Issuance of warrants and change in fair value of unvested warrants relating to marketing agreements	—	—	(147)	—	(147)
Net exercise of warrants to purchase common stock	959,676	—	—	—	—
Shares issued in connection with employee stock plans, net of shares withheld for employee taxes	889,473	—	3,531	—	3,531
Balance at March 31, 2015	81,660,918	\$ 8	\$ 473,347	\$ (222,612)	\$ 250,743

See accompanying notes to condensed consolidated financial statements.

Table of Contents

TRUECAR, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities		
Net loss	\$ (11,623)	\$ (9,921)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,897	2,919
Deferred income taxes	203	250
Bad debt expense and other reserves	65	37
Stock-based compensation	9,453	4,144
Common stock warrant expense	(147)	2,388
Imputed interest on notes receivable	—	10
Interest income on notes receivable	—	(14)
Accretion of beneficial conversion feature on convertible notes payable and discount on revolving line of credit	—	129
Loss on disposal of fixed assets	28	195
Changes in operating assets and liabilities:		
Accounts receivable	(256)	(2,217)
Prepaid expenses	608	648
Other current assets	1,338	280
Other assets	(206)	—
Accounts payable	(683)	(780)
Accrued employee expenses	(7,407)	(4,941)
Accrued expenses and other liabilities	1,508	4,629
Other liabilities	65	(39)
Net cash used in operating activities	(3,157)	(2,283)
Cash flows from investing activities		
Purchase of property and equipment	(5,174)	(2,215)
Purchase of intangible assets	—	(350)
Repayment of notes receivable from related parties	—	3,761
Net cash (used in) provided by investing activities	(5,174)	1,196
Cash flows from financing activities		
Payments of initial public offering costs	—	(714)
Proceeds from exercise of common stock options	3,893	557
Taxes paid related to net share settlement of equity awards	(362)	—
Proceeds from financing obligation drawdown	345	—
Payments of build-to-suit financing obligations	(15)	—
Net cash provided by (used in) financing activities	3,861	(157)

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Net decrease in cash and cash equivalents	(4,470)	(1,244)
Cash and cash equivalents at beginning of period	147,539	43,819
Cash and cash equivalents at end of period	\$ 143,069	\$ 42,575
Supplemental disclosures of non-cash activities		
Deferred offering costs included in accounts payable and accrued expenses	—	2,310
Recognition of leased facility asset acquired and lease financing obligation	22,412	—
Stock-based compensation capitalized for software development	331	294
Capitalized assets included in accounts payable, accrued employee expenses and other accrued expenses	1,181	239

See accompanying notes to condensed consolidated financial statements.

7

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Table of Contents

TRUECAR, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Nature of Business

TrueCar, Inc. (“TrueCar”) is an Internet-based information, technology, and communication services company. Hereinafter, TrueCar, Inc. and its wholly owned subsidiaries TrueCar.com, Inc. and ALG, Inc. are collectively referred to as “TrueCar” or the “Company”; TrueCar.com, Inc. is referred to as “TrueCar.com” and ALG, Inc. is referred to as “ALG”. TrueCar was incorporated in the state of Delaware in February 2005 and began business operations in April 2005. Its principal corporate offices are located in Santa Monica, California.

TrueCar has established an intelligent, data driven platform that allows users to obtain market based pricing data on new and used cars and to connect with TrueCar’s network of Certified Dealers. TrueCar’s platform operates on a common technology infrastructure, powered by proprietary data and analytics. Users access TrueCar’s platform through the TrueCar.com website and TrueCar mobile applications or through the car buying websites and mobile applications that TrueCar operates for its affinity group marketing partners (“Auto Buying Programs”). An affinity group is comprised of a network of members or employees that provide discounts to its members.

ALG provides data and consulting services regarding determination of the residual value of an automobile at future given points in time, which are used to underwrite automotive loans and leases and by financial institutions to measure exposure and risk across loan, lease, and fleet portfolios. ALG also obtains automobile purchase data from a variety of sources and uses this data to provide consumers and dealers with highly accurate, geographically specific, real-time pricing information.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company’s unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and applicable rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) for quarterly reports on Form 10-Q and Article 10-01 of Regulation S-X. Accordingly, some information and footnote disclosures required by GAAP for complete financial statements have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company’s management, the accompanying unaudited condensed consolidated financial statements and notes have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2014 and include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the interim periods presented.

The condensed consolidated balance sheet at December 31, 2014 has been derived from the audited financial statements at that date, but does not include all of the disclosures required by GAAP. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company’s Form 10-K filed with the SEC on March 12, 2015.

Revision of Prior Period Amounts

The Company has identified and corrected immaterial errors in its prior period disclosures of related party cost of revenue and related party sales and marketing expense. The parenthetical information within the consolidated statement of comprehensive loss for the three months ended March 31, 2014 and Note 12 presented herein have been revised to reflect the correction of this error. The results of this correction were a decrease to related party cost of revenue of \$0.2 million and an increase to related party sales and marketing expenses of \$0.3 million, respectively, for the three months ended March 31, 2014.

## Table of Contents

### Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Assets and liabilities which are subject to judgment and use of estimates include sales allowances and allowances for doubtful accounts, the fair value of assets and liabilities assumed in business combinations, fair value of the capitalized facility leases, the recoverability of goodwill and long-lived assets, valuation allowances with respect to deferred tax assets, useful lives associated with property and equipment and intangible assets, contingencies, and the valuation and assumptions underlying stock-based compensation and other equity instruments. On an ongoing basis, the Company evaluates its estimates compared to historical experience and trends, which form the basis for making judgments about the carrying value of assets and liabilities. In addition, the Company engaged valuation specialists to assist with management's determination of the valuation of its capitalized facility leases, fair values of assets and liabilities assumed in business combinations, and in periods prior to the Company's initial public offering, valuation of common stock.

### Segments

The Company has one operating segment. The Company's Chief Operating Decision Makers ("CODM"), the Chief Executive Officer, the President, and the Chief Financial Officer, manage the Company's operations based on consolidated financial information for purposes of evaluating financial performance and allocating resources.

The CODM review financial information on a consolidated basis, accompanied by information about transaction revenue and data and other revenue (Note 13). All of the Company's principal operations, decision-making functions and assets are located in the United States.

### Recent Accounting Pronouncements

Under the Jumpstart Our Business Startups Act ("JOBS Act"), the Company meets the definition of an emerging growth company. The Company has irrevocably elected to opt out of the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act.

In April 2015, the FASB issued new guidance related to the presentation of debt issuance costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction for the associated debt liability. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. The adoption of this guidance is not expected to have an impact on the Company's consolidated financial statements.

In April 2015, the FASB issued new guidance related to the customer's accounting for fees paid in a cloud computing arrangement, which provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this guidance is not expected to have an impact on the Company's consolidated financial statements.

In May 2014, the FASB issued guidance related to revenue from contracts with customers. Under this guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the

consideration that is expected to be received for those goods or services. The updated standard will replace all existing revenue recognition guidance under GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. The guidance is effective for annual and interim reporting periods beginning after December 15, 2016. In April 2015, the FASB proposed a deferral of the effective date of the new standard by one year. The Company is evaluating the impact of adopting this guidance on its consolidated financial statements.

Table of Contents

## 3.Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Accounting standards describe a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1 — Quoted prices in active markets for identical assets or liabilities or funds.
- Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying amounts of cash equivalents, accounts receivable, prepaid and other current assets, accounts payable, and accrued expenses and other current liabilities approximate fair value because of the short maturity of these items.

The following table summarizes the Company's financial assets measured at fair value on a recurring basis at March 31, 2015 and December 31, 2014 by level within the fair value hierarchy. Financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

	At March 31, 2015		At December 31, 2014	
	Level 1	Total Fair Value	Level 1	Total Fair Value
Cash equivalents	\$ 141,529	\$ 141,529	\$ 145,284	\$ 145,284
Total Assets	\$ 141,529	\$ 141,529	\$ 145,284	\$ 145,284

## 4.Property and Equipment, net

Property and equipment consisted of the following at March 31, 2015 and December 31, 2014 (in thousands):

	March 31, 2015	December 31, 2014
Computer equipment, software, and internally developed software	\$ 40,507	\$ 37,110
Furniture and fixtures	2,654	2,335
Leasehold improvements	5,926	4,611



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Capitalized facility leases	29,256	6,599
	78,343	50,655
Less: Accumulated depreciation	(22,216)	(19,924)
Total property and equipment, net	\$ 56,127	\$ 30,731

Table of Contents

The Company is considered the owner, for accounting purposes only, of one of its Santa Monica, California leased office spaces and of its San Francisco, California leased office space (collectively, the “Premises”) as it has taken on certain risks of construction build cost overages above normal tenant improvement allowances. Accordingly, at March 31, 2015 and December 31, 2014, the Company has capitalized \$29.3 million and \$6.6 million, respectively, related to the Premises, which represents the estimated fair value of the leased properties and additions for capitalized interest incurred during the construction periods and capitalized costs related to structural improvements to the building. For the three months ended March 31, 2015, the Company capitalized approximately \$0.7 million of interest costs related to the Premises. Additionally, at March 31, 2015 and December 31, 2014, the Company recognized a corresponding lease financing obligation of approximately \$28.3 million and \$6.6 million, respectively. Refer to Note 7 for additional information. Normal leasehold improvements related to the facilities are recorded in leasehold improvements in the table above.

Included in the table above are property and equipment of \$23.2 million and \$8.1 million at March 31, 2015 and December 31, 2014, respectively, which are capitalizable, but had not yet been placed in service. The \$23.2 million balance at March 31, 2015 was comprised primarily of the Santa Monica capitalized facility lease of \$22.2 million. The \$8.1 million balance at December 31, 2014 was comprised primarily of the San Francisco capitalized facility lease of \$6.6 million.

Total depreciation and amortization expense of property and equipment was \$2.9 million and \$2.0 million for the three months ended March 31, 2015 and 2014, respectively.

Amortization of internal use capitalized software development costs was \$1.9 million and \$1.1 million for the three months ended March 31, 2015 and 2014, respectively.

**5.Intangible Assets**

Intangible assets consisted of the following at March 31, 2015 and December 31, 2014 (in thousands):

	At March 31, 2015		Net Carrying Value
	Gross Carrying Value	Accumulated Amortization	
Acquired technology and domain name	\$ 31,090	\$ (11,551)	\$ 19,539
Customer relationships	6,300	(2,682)	3,618
Tradenames	4,900	(1,143)	3,757
Total	\$ 42,290	\$ (15,376)	\$ 26,914

	At December 31, 2014		Net Carrying Value
	Gross Carrying Value	Accumulated Amortization	
Acquired technology and domain name	\$ 31,090	\$ (10,788)	\$ 20,302
Customer relationships	6,300	(2,491)	3,809
Tradenames	4,900	(1,062)	3,838

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Total	\$ 42,290	\$ (14,341)	\$ 27,949
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Amortization expense for the three months ended March 31, 2015 and 2014 was \$1.0 million and \$1.1 million, respectively.

11

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Table of Contents

Amortization expense with respect to intangible assets at March 31, 2015 for each of the five years through December 31, 2019 and thereafter is as follows (in thousands):

Nine months ending December 31, 2015	\$ 3,099
2016	4,041
2017	3,862
2018	3,861
2019	3,792
Thereafter	8,259
Total amortization expense	\$ 26,914

## 6.Credit Facility

The Company had previously entered into a credit facility with a financial institution that provided for advances under a formula-based revolving line of credit and had no amounts outstanding at December 31, 2014.

In February 2015, the Company amended its credit facility and entered into a third amended and restated loan and security agreement (“Third Amended Credit Facility”) with the same financial institution, effective as of February 18, 2015, for a \$35.0 million secured revolving credit facility that expires on February 18, 2018. The Third Amended Credit Facility provides a \$10.0 million subfacility for the issuance of letters of credit and contains an increase option permitting the Company, subject to the lenders consent, to increase the revolving credit facility by up to \$15.0 million, to an aggregate maximum of \$50 million.

The Third Amended Credit Facility bears interest, at the Company’s option, at either (i) the prime rate published by The Wall Street Journal, plus a spread of -0.25% to 0.50%, or (ii) a LIBOR rate determined in accordance with the terms of the Third Amended Credit Facility, plus a spread of 1.75% to 2.50%. In each case, the spread is based on the Company’s adjusted quick ratio, which is a ratio of the Company’s cash and cash equivalents plus net billed accounts receivable to current liabilities plus all borrowings under the credit facility.

Interest is due and payable quarterly in arrears for prime rate loans and on the earlier of the last day of each quarter or the end of an interest period, as defined in the Third Amended Credit Facility, for LIBOR rate loans. The Company is also obligated to pay an unused revolving line facility fee of 0.0% to 0.20% per annum based on the Company’s adjusted quick ratio.

Third Amended Credit Facility requires the Company to maintain an adjusted quick ratio of at least 1.5 to 1 on the last day of each quarter. If this adjusted quick ratio is not maintained, then the facility requires the Company to maintain, as measured at each quarter end, a maximum consolidated leverage ratio of 3.00 or 2.50 to 1.00, and a fixed charge

coverage ratio of at least 1.25 to 1.00.

Consolidated leverage ratio is a ratio of all funded indebtedness, including all capital lease obligations, plus all letters of credit under the facility to the Company's Adjusted EBITDA for the trailing twelve months. Fixed charge coverage ratio is the ratio of our Adjusted EBITDA less cash paid for income taxes to our cash paid for interest plus capital expenditures for the trailing twelve months. This credit facility also limits the Company's ability to pay dividends. At March 31, 2015, the Company was in compliance with all financial covenants.

The Company's future material domestic subsidiaries are required, upon the lender's request, to become co-borrowers under the credit facility. The credit facility contains acceleration clauses that accelerate any borrowings in the event of default. The obligations of the Company and its future material domestic subsidiaries are collateralized by substantially all of their respective assets, subject to certain exceptions and limitations.

At March 31, 2015, the Company had no outstanding amounts under the Third Amended Credit Facility and the amount available was \$35.0 million.

Table of Contents

7. Commitments and Contingencies

Office Lease Commitments

At March 31, 2015, the Company had various non-cancellable leases related to the Company's office facilities which expire through 2030.

The Company recorded rent expense of \$1.0 million and \$0.6 million for the three months ended March 31, 2015 and 2014, respectively.

San Francisco Office Lease

In May 2014, the Company entered into a new facility lease (the "Lease") in San Francisco (the "San Francisco Office") that total future minimum lease commitments over 10 years, beginning August 1, 2014 of \$7.0 million. In connection with this lease, the Company was required to obtain an irrevocable standby letter of credit in the amount of \$0.8 million for the benefit of the landlord. Beginning August 1, 2017 through August 1, 2020, the letter of credit is subject to an annual reduction to as little as \$0.2 million.

The Company concluded that it was deemed the owner (for accounting purposes only) of the San Francisco Office during the construction period under build-to-suit lease accounting. As the Company assumed control of the construction project in the third quarter of 2014, the Company recorded the fair value of the leased property in "Property and equipment, net" and a corresponding liability in "Lease financing obligations" on the accompanying consolidated balance sheets. The Company recognized increases in the asset as additional building costs were incurred during the construction period. Additionally, imputed interest during the construction period was capitalized. At March 31, 2015 and December 31, 2014, the Company has capitalized \$7.1 million and \$6.6 million, respectively, in "Property and equipment, net" and a corresponding current and non-current lease financing obligation of \$6.4 million and \$6.6 million, respectively.

Upon completion of the construction during the first quarter of 2015, the Company had retained the fair value of the lease property and the obligation on its balance sheet as it did not qualify for sales and leaseback accounting due to requirements to maintain collateral in the lease. The Company records the rent payments as a reduction of the lease financing obligation and imputed interest expense; ground rent will be recorded as an operating expense. The fair value of the lease property is being depreciated over the building's estimated useful life of forty years. At the conclusion of the lease term, the Company will de-recognize both the then carrying values of the asset and financing obligation.

Santa Monica Office Lease

In July 2014, the Company entered into a new facility lease in Santa Monica (the "Santa Monica Office") with total future minimum lease commitments over fifteen years, beginning in January 2015, of \$36.0 million. In connection with this lease, the Company obtained an irrevocable standby letter of credit in the amount of \$3.5 million for the benefit of the landlord. Beginning October 1, 2019 through October 1, 2025, the letter of credit is subject to an annual reduction to as little as \$1.2 million.

The Company has concluded that it is deemed the owner (for accounting purposes only) of the Santa Monica Office during the construction period under build-to-suit lease accounting. As the Company assumed control of the construction project in the first quarter of 2015, the Company recorded the fair value of the leased property in "Property and equipment, net" and a corresponding liability in "Lease financing obligations" on the accompanying consolidated balance sheets. The Company recognizes increases in the asset as additional building costs are incurred

during the construction period. Additionally, imputed interest is capitalized during the construction period. At March 31, 2015, the Company has capitalized \$22.2 million in "Property and equipment, net" and a corresponding current and non-current lease financing obligation of \$21.9 million.

Upon completion of the construction, which is estimated to be completed in the fourth quarter of 2015, the Company will retain the fair value of the Santa Monica Office lease property and the obligation on its balance sheet as it does not qualify for sales leaseback accounting due to requirements to maintain collateral in the lease. The Company will record the rent payments as a reduction of the lease financing obligation and imputed interest expense; ground rent will be recorded as an operating lease. The fair value of the lease property will be depreciated over the building's estimated useful life of forty

## Table of Contents

years. At the conclusion of the lease term, the Company will de-recognize both the then carrying values of the asset and financing obligation.

### Other Lease Amendments and New Lease

In February 2015, the Company amended an office lease for approximately 17,000 square feet in Santa Monica, California, to extend the lease term from June 2016 to December 2025. Additionally, beginning in 2016, the Company will lease approximately 21,000 additional square feet in the building through December 2025. The Company has the option to extend the lease term for portions of the space, or the entire space, for an additional five year period. The cumulative base rent over the lease term is expected to be approximately \$26.0 million. In connection with the original lease for this space, the Company was required to obtain an irrevocable standby letter of credit, in the amount of \$0.5 million for the benefit of its landlord. The current letter of credit expires June 30, 2016.

In February 2015, the Company entered into a new five year office lease for approximately 6,000 square feet in Los Angeles, California which commenced in April 2015. The Company has the option to extend the lease for two additional five year periods. The cumulative base rent over the initial lease term is \$3.0 million.

Also in February 2015, the Company amended an office lease for approximately 5,000 square feet in Santa Monica, California to extend the lease term from May 2016 to March 2020. Additionally, beginning in March 2015, the Company will lease approximately 7,000 additional square feet through March 2020. The cumulative base rent over the lease term is expected to be approximately \$3.6 million.

### Legal Proceedings

From time to time, the Company may become subject to legal proceedings, claims, and litigation arising in the ordinary course of business. The Company is not currently a party to any material legal proceedings, other than as described below.

The Company filed a complaint against Sonic Automotive and Sonic Divisional Operations (collectively "Sonic") on August 9, 2013 in the U.S. District Court for the Central District of California. The litigation concerns Sonic's commercial use of the "True Price" mark. The Company is seeking an injunction prohibiting Sonic from using the "True Price" mark, as well as monetary damages incurred by the Company due to Sonic's unlawful infringement. As the case has only recently reached the end of the fact discovery phase, the future outcome is not reasonably determinable as of the date of filing the consolidated financial statements for the three months ended March 31, 2015.

In March 2015, the Company was named as a defendant in a lawsuit filed in the U.S. District Court in the Southern District of New York. The complaint, purportedly filed on behalf of numerous automotive dealers who are not on the TrueCar platform, alleges that the Company has violated the Lanham Act as well as various state laws prohibiting unfair competition and deceptive acts or practices related to the Company's advertising and promotional activities. The complaint seeks injunctive relief in addition to over \$250 million in damages as a result of the alleged diversion of customers from the plaintiffs' dealerships to TrueCar Certified Dealers. On April 7, 2015, the Company filed an



answer to the complaint. The Company believes that the complaint is without merit and it intends to vigorously defend itself in this matter. Based on the preliminary nature of the proceedings in this case, the outcome of this legal proceeding, including the anticipated legal defense costs, remains uncertain; accordingly, the Company cannot predict the ultimate outcome, or reasonably estimate the probability of or the range of loss, if any, for this action. As a result, no amounts have been recorded in the Company's consolidated financial statements related to this matter. If this matter is not resolved in the Company's favor, losses arising from the results of litigation or settlements, as well as ongoing defense costs, could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

#### Employment Contracts

The Company has entered into employment contracts with certain executives of the Company. Employment under these contracts is at will employment. However, under the provisions of the contracts, the Company would incur severance obligations up to twelve months of the executive's annual base salary for certain events such as involuntary terminations.

## Table of Contents

### Indemnifications

In the ordinary course of business, the Company may provide indemnities of varying scope and terms to customers, vendors, lessors, investors, directors, officers, employees and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of such agreements, services to be provided by the Company, or from intellectual property infringement claims made by third parties. These indemnifications may survive termination of the underlying agreement and the maximum potential amount of future payments the Company could be required to make under these indemnification provisions may not be subject to maximum loss provisions. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is indeterminable. To date, there has not been a material claim paid by the Company, nor has the Company been sued in connection with these indemnification arrangements. At March 31, 2015 and December 31, 2014, the Company has not accrued a liability for these guarantees, because the likelihood of incurring a payment obligation, if any, in connection with these guarantees is not probable or reasonably estimable.

### 8. Stockholders' Equity

#### Warrants to Purchase Common Stock

##### Warrants Issued to USAA

Beginning in March 2009, the Company entered into various agreements with USAA, an affinity partner and significant stockholder of the Company, which agreements provided for the issuance of warrants to purchase shares of the Company's common stock if minimum performance milestones, based on the level of vehicle sales, were achieved. The Company issues warrants to USAA in exchange for marketing services performed by USAA under the Company's affinity group marketing program. The purpose of the marketing services performed by USAA is to create awareness and to acquire traffic for, and drive users to, the Company's auto buying platforms. Warrants issued to USAA are recorded as sales and marketing expenses in the Company's consolidated statements of comprehensive loss.

In May 2014, the Company and USAA agreed to an extension of the affinity group marketing agreement with USAA. As part of the agreement, the Company issued to USAA a warrant to purchase 1,458,979 shares of the Company's common stock, which will be exercisable in two tranches. The first tranche of 392,313 shares has an exercise price of \$7.95 per share and the second tranche of 1,066,666 shares has an exercise price of \$15.00 per share. The warrant becomes exercisable based on the achievement of performance milestones based on the level of vehicle sales of USAA members through the Company's auto buying platforms. The warrant terminates on the earlier of the eighth anniversary of the date of issuance, the first anniversary of the termination of the USAA car-buying program or the date on which the Company no longer operates the USAA car-buying program. In addition, the agreement provides for the Company to spend marketing program funds with the actual level of marketing spend to be mutually agreed upon by USAA and the Company, subject to limits based on the number of actual vehicle sales generated through the affinity marketing program (Note 12).

For the three months ended March 31, 2015 and 2014, the Company recognized expense of \$28,000 and \$0.4 million related to warrants to purchase 2,666 shares and 139,503 shares of common stock that have been earned and are vested, respectively.

##### Warrants Issued to Third Party Marketing Firm

On February 25, 2011, the Company entered into a media and marketing services agreement with a direct marketing firm. Under the arrangement, the marketing firm will provide media purchasing, production, advertising, and marketing services in connection with the advertising and marketing of the Company's services. In addition to cash consideration, the Company agreed to issue a warrant to the marketing firm to purchase up to 1,433,333 shares of the Company's common stock at a price of \$6.02 per share. All shares under the warrant agreement were earned and outstanding at December 31, 2014. In March 2015, warrants to purchase 1,433,333 shares of the Company's common stock were exercised through a net settlement election. The Company issued 959,676 shares of its common stock to the third party marketing firm.

For the three months ended March 31, 2014, the Company recognized \$1.9 million of expense related to 238,674 warrants earned. The expense has been reflected as sales and marketing expense on the accompanying consolidated statements of comprehensive loss.

Table of Contents

## Warrants Issued to Vulcan

In November 2013, in a private placement to Vulcan Capital Growth Equity LLC (“Vulcan”), the Company issued a warrant to purchase 666,666 shares of its common stock at an exercise price of \$15.00 per share. The warrant is immediately exercisable and expires in November 2015. The warrant remains outstanding as of March 31, 2015.

## Warrants Issued to Service Provider

In May 2014, the Company entered into a consulting agreement with an individual to provide marketing services to the Company. The Company agreed to issue a warrant to the individual to purchase up to 333,333 shares of the Company’s common stock at a price of \$12.81 per share. All shares under the warrant agreement will become exercisable in accordance with the vesting schedule over a four year period. The warrant expires five years from the issuance date or, if earlier, twelve months following the termination of the consulting agreement.

For the three months ended March 31, 2015, the Company recorded a reduction in warrant expense of \$0.2 million, due to the remeasurement to fair value of the unvested warrants as of March 31, 2015, which was primarily related to the reduction in the Company’s stock price. The reduction in expense has been reflected as a reduction to sales and marketing expense on the accompanying consolidated statements of comprehensive loss. At March 31, 2015, warrants earned under this agreement totaled 33,333 shares.

## 9. Stock based Awards

## Stock Options

A summary of the Company’s stock option activity for the three months ended March 31, 2015 is as follows:

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contract Life (in years)
Outstanding at December 31, 2014	25,589,876	\$ 9.79	7.55
Granted	430,189	17.66	
Exercised	(772,140)	5.04	
Canceled/forfeited	(395,016)	12.39	
Outstanding at March 31, 2015	24,852,909	\$ 10.03	7.39

At March 31, 2015, total remaining stock based compensation expense for unvested stock option awards was \$57.5 million, which is expected to be recognized over a weighted average period of 2.9 years. For the three months ended March 31, 2015 and 2014, the Company recorded stock-based compensation expense for stock option awards of \$7.0 million and \$4.1 million, respectively.

## Restricted Stock Units

Activity in connection with the restricted stock units is as follows for the three months ended March 31, 2015:

	Number of Shares	Weighted- Average Grant Date Fair Value
Non-vested — December 31, 2014	827,997	\$ 12.36
Granted	237,901	17.73
Vested	(138,145)	15.70
Canceled/forfeited	(95,991)	10.50
Non-vested — March 31, 2015	831,762	\$ 13.56

Table of Contents

At March 31, 2015, total remaining stock based compensation expense for non-vested restricted stock units is \$8.1 million, which is expected to be recognized over a weighted-average period of 3.6 years. The Company recorded \$2.5 million and no stock-based compensation expense for restricted stock units for the three months ended March 31, 2015 and 2014, respectively.

## Stock based Compensation Cost

The Company recorded stock based compensation cost relating to stock options and restricted stock awards in the following categories on the accompanying consolidated statements of comprehensive loss (in thousands):

	Three Months Ended March 31,	
	2015	2014
Cost of revenue	\$ 177	\$ 54
Sales and marketing	1,390	1,036
Technology and development	926	706
General and administrative	6,960	2,348
Total stock-based compensation expense	9,453	4,144
Amount capitalized to internal software use	331	294
Total stock-based compensation cost	\$ 9,784	\$ 4,438

## 10. Income Taxes

In determining quarterly provisions for income taxes, the Company uses the annual estimated effective tax rate applied to the actual year to date loss. The Company's annual estimated effective tax rate differs from the statutory rate primarily as a result of state taxes, tax amortization of goodwill and changes in the Company's valuation allowance. The Company recorded \$0.2 million and \$0.3 million income tax expense for the three months ended March 31, 2015 and 2014, respectively.

There were no material changes to the Company's unrecognized tax benefits in the three months ended March 31, 2015, and the Company does not expect to have any significant changes to unrecognized tax benefits through the end of the fiscal year. Due to the presence of net operating loss carryforwards, all income tax years remain open for examination by the Internal Revenue Service ("IRS) and various state taxing authorities. The Company is currently under IRS examination for the 2011 and 2012 tax years. The Company does not anticipate that this pending tax examination will result in material tax assessments and it believes its income tax accruals at March 31, 2015 are reasonable.

## 11. Net Loss Per Share

The following table sets forth the computation of basic and diluted net loss per share (in thousands, except per share data):

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	Three Months Ended March 31,	
	2015	2014
Net loss	\$ (11,623)	\$ (9,921)
Weighted-average common shares outstanding	80,461	60,102
Net loss per share - basic and diluted	\$ (0.14)	\$ (0.17)

Table of Contents

The following table presents the number of anti dilutive shares excluded from the calculation of diluted net loss per share at March 31, 2015 and 2014 (in thousands):

	March 31,	
	2015	2014
Options to purchase common stock	24,853	20,736
Common stock warrants	2,492	5,967
Unvested restricted stock awards	832	38
Conversion of convertible preferred stock	—	2,857
Total shares excluded from net loss per share	28,177	29,598

## 12.Related Party Transactions

## Transactions with Stockholders

In October 2011, as part of the acquisition of ALG, the Company entered into various data licensing and transition services agreements with Dealertrack, a former significant stockholder of the Company. In the first quarter of 2014, Dealertrack divested its holdings in the Company and was no longer a related party. Costs under these agreements included in cost of revenue for the three months ended March 31, 2014 were \$0.4 million.

## Service Provider

An executive officer of the Company is an officer of a firm that provides marketing services to the Company. For the three months ended March 31, 2015 and 2014, the Company recorded sales and marketing expense of \$1.3 million and \$0.3 million, respectively, related to this marketing firm. At March 31, 2015 and December 31, 2014, the Company recorded \$0.8 million and \$0.9 million in prepaid expenses related to this marketing firm. Additionally, the Company had amounts due to this marketing firm at December 31, 2014 of \$0.2 million. No amounts were due to this marketing firm at March 31, 2015.

## Transactions with USAA

A former member of the Company's board of directors is the current Head of Corporate Development at USAA, the largest stockholder and most significant affinity marketing partner of the Company. The Company has entered into arrangements with USAA to operate its Auto Buying Program. The Company has amounts due from USAA at March 31, 2015 and December 31, 2014 of \$1.9 million and \$1.9 million, respectively. In addition, the Company has amounts due to USAA at March 31, 2015 and December 31, 2014 of \$5.1 million and \$4.7 million, respectively. The Company recorded sales and marketing expense of \$2.6 million and \$3.0 million for the three months ended March 31, 2015 and 2014, respectively, related to service arrangements entered into with USAA, including non-cash expense



associated with warrants to purchase shares of common stock (Note 8).

### 13.Revenue Information

The CODM reviews separate revenue information for its Transaction and Data and Other service offerings. All other financial information is reviewed by the CODM on a consolidated basis. The following table presents the Company's revenue categories during the periods presented (in thousands):

	Three Months Ended March 31,	
	2015	2014
Transaction revenue	\$ 54,268	\$ 39,992
Data and other revenue	4,286	3,938
Total revenues	\$ 58,554	\$ 43,930

Table of Contents

14.Subsequent Events

In April and May 2015, the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") granted stock options to purchase 1,074,085 shares of the Company's common stock at a weighted-average exercise price of \$15.69 per share. The stock options vest over an approximate period of four years. Additionally, the Compensation Committee granted 438,570 restricted stock units with a weighted-average grant date fair value of \$15.68, which generally vest quarterly over four years.

Table of Contents

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes thereto included in Item 1 "Financial Statements" in this Quarterly Report on Form 10-Q. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results and timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including, but are not limited to, those discussed in the section titled "Risk Factors" included elsewhere in this Quarterly Report on Form 10-Q. See "Special Note Regarding Forward-Looking Statements."

Overview

Our mission is to transform the car-buying experience for consumers and the way that dealers attract customers and sell cars. We have established an intelligent, data-driven online platform operating on a common technology infrastructure, powered by proprietary data and analytics. We operate our company-branded platform via our TrueCar.com website and TrueCar mobile applications. In addition, we customize and operate our platform for affinity group marketing partners, such as USAA, financial institutions, and large enterprises such as Boeing and Verizon. We enable users to obtain market-based pricing data on new and used cars, and to connect with our network of TrueCar Certified Dealers.

We benefit consumers by providing information related to what others have paid for a make and model of car in their area and, where available, estimated prices for that make and model of car, which we refer to as upfront pricing information, from our network of TrueCar Certified Dealers. This upfront pricing information generally includes guaranteed savings off MSRP which the consumer may then take to the dealer in the form of a Guaranteed Savings Certificate and apply toward the purchase of the specified make and model of car. We benefit our network of TrueCar Certified Dealers by enabling them to attract these informed, in-market consumers in a cost-effective, accountable manner, which we believe helps them to sell more cars.

Our subsidiary, ALG, Inc., provides data and consulting services regarding determination of the residual value of an automobile at given points in time in the future. These residual values are used to underwrite automotive loans and leases to determine payments by consumers. In addition, financial institutions use this information to measure exposure and risk across loan, lease and fleet portfolios.

During the three months ended March 31, 2015, we generated revenues of \$58.6 million and recorded a net loss of \$11.6 million. Of the \$58.6 million in revenue, \$54.3 million, or 92.7%, consisted of transaction revenues with the remaining \$4.3 million, or 7.3%, derived primarily from the sale of data and consulting services to the automotive and financial services industries. Revenues from the sale of data and consulting services are derived primarily from the operations of our ALG subsidiary. Transaction revenues primarily consist of fees paid to us by our network of TrueCar Certified Dealers under our pay-for-performance business model where we generally earn a fee only when a TrueCar user purchases a car from them.

We intend to grow traffic to TrueCar.com and our TrueCar branded mobile applications by building our brand through marketing campaigns that emphasize the value of trust and transparency in the car-buying process and the benefits of

transacting with TrueCar Certified Dealers. We will seek to increase the number of transactions on our platform by enhancing the user experience while expanding and improving the geographic coverage of our network of TrueCar Certified Dealers and delighting consumers with the ability to control the entire car-buying experience using their mobile devices. Over time, we intend to increase monetization opportunities by introducing additional products and services to improve the car-buying and car-ownership experience.

In May 2014, we completed our initial public offering in which we sold an aggregate of 8,941,250 shares of our common stock, including 1,166,250 shares sold pursuant to the exercise by the underwriters of their option to purchase such shares, at the public offering price of \$9.00 per share. We received net proceeds of \$69.2 million, after deducting underwriting discounts and commissions and offering expenses payable by us, from sales of our shares in the initial public offering.

In November 2014, we completed a follow-on public offering in which we sold 1,960,390 shares of common stock

Table of Contents

and selling stockholders sold 5,402,601 shares at a price of \$17.00 per share. We received net proceeds of \$30.8 million, after deducting underwriting discounts and commissions and offering expenses payable by us, from sales of our shares. We did not receive any proceeds from the sale of shares by selling stockholders.

## Key Metrics

We regularly review a number of key metrics to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make operating and strategic decisions.

	Three Months Ended	
	March 31,	
	2015	2014
Average Monthly Unique Visitors	5,520,235	3,935,770
Units(1)	168,559	125,980
Monetization	\$ 322	\$ 317
Franchise Dealer Count	9,108	7,210
Transaction Revenue Per Franchise Dealer	\$ 6,164	\$ 5,770

(1) We issued full credits of the amount originally invoiced with respect to 2,759 and 2,145 units during the three months ended March 31, 2015 and 2014, respectively. The number of units has not been adjusted downwards related to units credited as discussed in the description of the unit metric, below.

## Average Monthly Unique Visitors

We define a monthly unique visitor as an individual who has visited our website, our landing page on our affinity group marketing partner sites, or our mobile applications within a calendar month. We identify unique visitors through cookies for browser based visits on either a desktop computer or mobile device and through device IDs for mobile application visits. In addition, if a TrueCar.com user logs in, we supplement their identification with their log in credentials to attempt to avoid double counting on TrueCar.com across devices, browsers and mobile applications. If an individual accesses our service using different devices or different browsers on the same device within a given month, the first access through each such device or browser is counted as a separate monthly unique visitor, except where adjusted based upon TrueCar.com log in information. We calculate average monthly unique visitors as the sum of the monthly unique visitors in a given period, divided by the number of months in that period. We view our average monthly unique visitors as a key indicator of the growth in our business and audience reach, the strength of our brand, and the visibility of car buying services to the member base of our affinity group marketing partners.

The number of average monthly unique visitors increased 40% to approximately 5.5 million in the three months ended March 31, 2015 from approximately 3.9 million in the same period of 2014. We attribute the growth in our average monthly unique visitors principally to increased television, radio and digital marketing advertising campaigns that have led to increased brand awareness, as well as increased traffic from our affinity group marketing partners.

## Units

We define units as the number of automobiles purchased by our users from TrueCar Certified Dealers through TrueCar.com, our TrueCar branded mobile applications or the car buying sites we maintain for our affinity group marketing partners. A unit is counted following such time as we have matched the sale to a TrueCar user with one of TrueCar Certified Dealers. We view units as a key indicator of the growth of our business, the effectiveness of our product and the size and geographic coverage of our network of TrueCar Certified Dealers.

On occasion we issue credits to our TrueCar Certified Dealers with respect to units sold. However, we do not adjust our unit metric for these credits as we believe that in substantially all cases a vehicle has in fact been purchased through our platform given the high degree of accuracy of our sales matching process. Credits are most frequently issued to a dealer that claims that it had a pre-existing relationship with a purchaser of a vehicle, and we determine whether we will issue a credit

## Table of Contents

based on a number of factors, including the facts and circumstances related to the dealer claim and the level of claim activity at the dealership. In most cases, we issue credits in order to maintain strong business relations with the dealer and not because we have made an erroneous sales match or billing error.

The number of units increased 34% to 168,559 in the three months ended March 31, 2015 from 125,980 in the three months ended March 31, 2014. We attribute this growth in units to the effectiveness of our increased marketing activities, product enhancements, the growing number and geographic coverage of TrueCar Certified Dealers in our network, and the overall growth in new car sales in the automotive industry.

### Monetization

We define monetization as the average transaction revenue per unit, which we calculate by dividing all of our transaction revenue in a given period by the number of units in that period. Our monetization increased 1.6% to \$322 during the three months ended March 31, 2015 from \$317 for the same period in 2014 primarily as a result of growth in our independent dealer network and increases in our pricing structure with both our TrueCar Certified Dealers and independent dealer network during the three months ended March 31, 2015. We expect our monetization to be affected in the future by changes in our pricing structure, the unit mix between new and used cars, with used cars currently providing higher monetization, and by the introduction of new products and services.

### Franchise Dealer Count

We define franchise dealer count as the number of franchise dealers in the network of TrueCar Certified Dealers at the end of a given period. This number is calculated by counting the number of brands of new cars sold by dealers in the TrueCar Certified Dealer network at their locations, and includes both single location proprietorships as well as large consolidated dealer groups. We view our ability to increase our franchise dealer count as an indicator of our market penetration and the likelihood of converting users of our platform into unit sales. Our TrueCar Certified Dealer network includes non franchised dealers that primarily sell used cars and are not included in franchise dealer count. Our franchise dealer count increased to 9,108 at March 31, 2015 from 8,501 at December 31, 2014 and 7,210 at March 31, 2014. We attribute this growth in our franchise dealer count to the continued effectiveness of our dealer sales team, increased brand awareness, and product enhancements.

### Transaction Revenue Per Franchise Dealer

We define transaction revenue per franchise dealer as transaction revenue in a given period divided by the average franchise dealer count in that period. Our transaction revenue per franchise dealer increased 6.8% to \$6,164 during the three months ended March 31, 2015 from \$5,770 for the same period in 2014. The increases in the current year period over the prior year period primarily reflect an increase in units which were attributable to an increase in marketing spend and an increase in the number of TrueCar Certified Dealers, platform and product enhancements, and the overall growth in sales of the automotive industry.

### Non GAAP Financial Measures

Adjusted EBITDA and Non-GAAP net income (loss) are financial measures that are not calculated in accordance with generally accepted accounting principles in the United States, or GAAP. We define Adjusted EBITDA as net loss adjusted to exclude interest income, interest expense, depreciation and amortization, change in the fair value of preferred stock warrant liability, non-cash warrant expense, transaction costs from acquisitions, change in fair value of contingent consideration, stock-based compensation, IPO-related expenses, ticker symbol acquisition costs, certain litigation costs and legal settlements, and income taxes. We define Non-GAAP net income (loss) as net loss adjusted to exclude stock-based compensation, change in fair value of preferred stock warrant liability, non-cash warrant

expense, transaction costs from acquisitions, change in the fair value of contingent consideration, IPO-related expenses, ticker symbol acquisition costs, and certain litigation costs and legal settlements. We have provided below a reconciliation of each of Adjusted EBITDA and Non-GAAP net income (loss) to net loss, the most directly comparable GAAP financial measure. No adjustment for legal fees or other costs associated with the complaint filed against us in March 2015 (see Note 7 “Commitments and Contingencies – Legal Proceedings” to our consolidated financial statements) are reflected in the reconciliations below as no such costs had been incurred as of March 31, 2015, however such costs will be excluded from Adjusted EBITDA when



Table of Contents

incurred. Neither Adjusted EBITDA nor Non-GAAP net income (loss) should be considered as an alternative to net loss or any other measure of financial performance calculated and presented in accordance with GAAP. In addition, our Adjusted EBITDA and Non-GAAP net income (loss) measures may not be comparable to similarly titled measures of other organizations as they may not calculate Adjusted EBITDA or Non-GAAP net income (loss) in the same manner as we calculate these measures.

We have included Adjusted EBITDA and Non-GAAP net income (loss) herein as they are important measures used by our management and board of directors to assess our operating performance. We believe that using Adjusted EBITDA and Non-GAAP net income (loss) facilitates operating performance comparisons on a period-to-period basis because these measures exclude variations primarily caused by changes in the excluded items noted above. In addition, we believe that Adjusted EBITDA, Non-GAAP net income (loss) and similar measures are widely used by investors, securities analysts, rating agencies and other parties in evaluating companies as a measure of financial performance and debt service capabilities.

Our use of each of Adjusted EBITDA and Non-GAAP net income (loss) has limitations as an analytical tool, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect the payment or receipt of interest or the payment of income taxes;
- neither Adjusted EBITDA nor Non-GAAP net income (loss) reflects changes in, or cash requirements for, our working capital needs;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditures or any other contractual commitments;
- neither Adjusted EBITDA nor Non-GAAP net income (loss) reflects the cash costs to advance our claims in respect of our litigation against Sonic Automotive Holdings, Inc.;
- neither Adjusted EBITDA nor Non-GAAP net income (loss) reflect a non-recurring legal settlement in favor of the Company;
- neither Adjusted EBITDA nor Non-GAAP net income (loss) consider the potentially dilutive impact of shares issued or to be issued in connection with share-based compensation or warrant issuances; and
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other companies, including companies in our own industry, may calculate Adjusted EBITDA and Non-GAAP net income (loss) differently from how we do, limiting its usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted EBITDA and Non-GAAP net income (loss) alongside other financial performance measures, including various cash flow metrics, net loss and our other GAAP results. In addition, in evaluating Adjusted EBITDA and Non-GAAP net income (loss) you should be aware that in the future we will incur expenses such as those that are the subject of adjustments in deriving Adjusted EBITDA and Non-GAAP net income (loss), and you should not infer from our presentation of Adjusted EBITDA and Non-GAAP net income (loss) that our future results will not be affected by these expenses or any unusual or non-recurring items.

Table of Contents

The following table presents a reconciliation of net loss to Adjusted EBITDA for each of the periods presented:

	Three Months Ended	
	March 31,	
	2015	2014
	(in thousands)	
Reconciliation of Net Loss to Adjusted EBITDA:		
Net loss	\$ (11,623)	\$ (9,921)
Non-GAAP adjustments:		
Interest income	(20)	(17)
Interest expense	45	170
Depreciation and amortization	3,925	3,114
Stock-based compensation	9,453	4,144
Warrant expense (reduction)	(147)	2,335
Ticker symbol acquisition costs	—	803
Certain litigation costs	2,443	120
Provision for income taxes	209	250
Adjusted EBITDA	\$ 4,285	\$ 998

The following table presents a reconciliation of net loss to Non-GAAP net income (loss) for each of the periods presented:

	Three Months Ended	
	March 31,	
	2015	2014
	(in thousands)	
Reconciliation of Net Loss to Non-GAAP Net Loss:		
Net loss	\$ (11,623)	\$ (9,921)
Non-GAAP adjustments:		
Stock-based compensation	9,453	4,144
Warrant expense (reduction)	(147)	2,335
Ticker symbol acquisition costs	—	803
Certain litigation costs	2,443	120
Non-GAAP net income (loss)	\$ 126	\$ (2,519)

## Components of Operating Results

### Revenues

Our revenues are comprised of transaction revenue, and data and other revenue.

**Transaction Revenue.** Revenue consists of fees paid by dealers participating in our network of TrueCar Certified Dealers. Dealers pay us these fees either on a per vehicle basis for sales to our users or in the form of a subscription arrangement. Subscription arrangements fall into three types: flat rate subscriptions, subscriptions subject to downward adjustment based on a minimum number of vehicle sales (“guaranteed sales”) and subscriptions subject to downward adjustment based on a minimum number of introductions (“guaranteed introductions”). Under flat rate subscription arrangements, fees are charged at a monthly flat rate regardless of the number of sales made to users of our platform by the dealer. For flat rate subscription arrangements, we recognize the fees as revenue over the subscription period on a straight line basis which corresponds to the period that we are providing the dealer with access to our platform. Under guaranteed sales subscription arrangements, fees are charged based on the number of guaranteed sales multiplied by a fixed amount per vehicle. To the extent that the actual number of vehicles sold by the dealers to users of our platform is less than the number of guaranteed sales, we provide a credit to the dealer. To the extent that the actual number of vehicles sold exceeds the number of guaranteed sales, we are not entitled to any additional fees. Under guaranteed introductions subscription arrangements, fees are charged based on a periodically-updated formula that considers, among other things, the introductions anticipated to be provided to the dealer. To the extent that the number of actual introductions is less than the number of guaranteed introductions, we provide a credit to the dealer. To the extent that the actual number of introductions provided exceeds the

## Table of Contents

number guaranteed, we are not entitled to any additional fees. For guaranteed sales and guaranteed introductions subscription arrangements, we recognize revenue based on the lesser of (i) the actual number of sales generated or introductions delivered through our platform during the subscription period multiplied by the contracted price per sale/introduction or (ii) the straight-line of the subscription fee over the period over which the services are delivered.

In addition, we enter into arrangements with automobile manufacturers to promote the sale of their vehicles through the offering of additional consumer incentives to members of our affinity group marketing partners. These manufacturers pay us a per-vehicle fee for promotion of the incentive and we recognize the per-vehicle incentive fee when the vehicle sale has occurred between the member of our affinity group marketing partner and the dealer.

**Data and Other Revenue.** We derive this type of revenue primarily from the provision of data and consulting services to the automotive and financial services industries through our ALG subsidiary. The data and consulting services that ALG provides typically relate to the determination of the residual value of an automobile at given future points in time. These residual values are used to underwrite automotive loans and leases to determine payments by consumers. In addition, financial institutions use this information to measure exposure and risk across loan, lease and fleet portfolios. Our customers generally pay us for these services as information is delivered to them.

### Costs and Operating Expenses

**Cost of Revenue (exclusive of depreciation and amortization).** Cost of revenue includes expenses related to the fulfillment of our services, consisting primarily of data costs and licensing fees paid to third party service providers and expenses related to operating our website and mobile applications, including those associated with our data centers, hosting fees, data processing costs required to deliver introductions to our network of TrueCar Certified Dealers, employee costs related to dealer operations, sales matching, and employee and consulting costs related to delivering data and consulting services to our customers. Cost of revenue excludes depreciation and amortization of software costs and other hosting and data infrastructure equipment used to operate our platforms, which are included in the depreciation and amortization line item on our statement of comprehensive loss.

**Sales and Marketing.** Sales and marketing expenses consist primarily of: television and radio advertising; affinity group partner marketing fees, which also includes loan subvention costs where we pay certain affinity group marketing partners a portion of consumers' borrowing costs for car loan products offered by these affinity group marketing partners, and common stock warrants issued to USAA; marketing sponsorship programs; and digital customer acquisition. In addition, sales and marketing expenses include employee related expenses for sales, customer support, marketing and public relations employees, including salaries, bonuses, benefits, and stock-based compensation expenses; third-party contractor fees; and allocated overhead. Sales and marketing expenses also include costs related to common stock warrants issued to a third-party marketing firm and a service provider as part of our commercial arrangements with them. Marketing and advertising costs promote our services and are expensed as incurred, except for media production costs which are expensed the first time the advertisement is aired.

**Technology and Development.** Technology and development expenses consist primarily of employee related expenses including salaries, bonuses, benefits and stock-based compensation expenses, third-party contractor fees, and allocated overhead primarily associated with development of our platform, as well as our product development, product management, research and analytics and internal IT functions.

**General and Administrative.** General and administrative expenses consist primarily of employee related expenses including salaries, bonuses, benefits and stock-based compensation expenses for executive, finance, accounting, legal, human resources, and business intelligence personnel. General and administrative expenses also include legal, accounting, and other third-party professional service fees, bad debt, and allocated overhead.

Depreciation and Amortization. Depreciation consists primarily of depreciation expense recorded on property and equipment. Amortization expense consists primarily of amortization recorded on intangible assets, capitalized software costs and leasehold improvements.

Interest Income. Interest income consists of interest earned on our cash and cash equivalents and short-term investment balances.

Table of Contents

**Interest Expense.** Interest expense consists of interest on our outstanding short-term debt obligations, the amortization of the discount on our line of credit, and interest in our facility lease financing obligation subsequent to construction completion for our built to suit leases.

**Provision for Income Taxes.** We are subject to federal and state income taxes in the United States. We provided a full valuation allowance against our net deferred tax assets at March 31, 2015 and December 31, 2014 as it is more likely than not that some or all of our deferred tax assets will not be realized. As a result of the valuation allowance, our income tax benefit (or expense) is significantly less than the federal statutory rate of 34%. Our provision for income taxes in the three months ended March 31, 2015 primarily reflected a tax expense associated with the amortization of tax deductible goodwill that is not an available source of income to realize deferred tax assets.

**Results of Operations**

The following table sets forth our selected consolidated statements of operations data for each of the periods indicated.

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
<b>Consolidated Statements of Operations Data:</b>		
Revenues	\$ 58,554	\$ 43,930
Costs and operating expenses:		
Cost of revenue (exclusive of depreciation and amortization presented separately below)	5,791	3,720
Sales and marketing	31,709	27,767
Technology and development	9,760	7,330
General and administrative	18,769	11,517
Depreciation and amortization	3,925	3,114
Total costs and operating expenses	69,954	53,448
Loss from operations	(11,400)	(9,518)
Interest income	20	17
Interest expense	(45)	(170)
Other income, net	11	—
Loss before provision for income taxes	(11,414)	(9,671)
Provision for income taxes	209	250
Net loss	\$ (11,623)	\$ (9,921)
<b>Other Non-GAAP Financial Information:</b>		
Adjusted EBITDA	\$ 4,285	\$ 998
Non-GAAP net income (loss)	\$ 126	\$ (2,519)

**Comparison of the Three Months Ended March 31, 2015 and 2014****Revenues**

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	Three Months Ended		Change	
	March 31, 2015	2014	\$	%
	(dollars in thousands)			
Transaction revenue	\$ 54,268	\$ 39,992	\$ 14,276	35.7 %
Data and other revenue	4,286	3,938	348	8.8 %
Revenues	\$ 58,554	\$ 43,930	\$ 14,624	33.3 %

The increase in our revenues of \$14.6 million or 33.3%, for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014 primarily reflected the substantial increase in our transaction revenue.

Transaction revenue and data and other revenue comprised 92.7% and 7.3%, respectively, of revenues for the three months ended March



Table of Contents

31, 2015 as compared to 91.0% and 9.0%, respectively, for the same period in 2014. The increase in transaction revenue for the three months ended March 31, 2015 primarily reflected a 33.8% increase in units due to an increase in marketing spend and an increase in the number of TrueCar Certified Dealers, platform and product enhancements, and the overall growth in sales of the automotive industry. Our average monthly unique visitors grew 40.3% to 5.5 million for the three months ended March 31, 2015 from 3.9 million for the same period in 2014, reflecting our increased advertising expenses which improved brand awareness and the visibility of our car buying services to our users. Our franchise dealer count grew 26.3% from 7,210 at March 31, 2014 to 9,108 at March 31, 2015, reflecting the ongoing adoption of our service among dealers. Our monetization increased 1.6% to \$322 during the three months ended March 31, 2015 from \$317 for the same period in 2014, primarily as a result of growth in our independent dealer network and reflected improved pricing with our TrueCar Certified Dealers and independent dealer network during the three months ended March 31, 2015. Monetization may fluctuate from period to period as a result of changes in our estimated sales allowance, pricing and the unit mix between new and used cars. The 8.8% increase in data and other revenue for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014 primarily reflected an increase in volume of portfolio risk analysis data and residual value data provided to customers.

## Costs and Operating Expenses

## Cost of Revenue (exclusive of depreciation and amortization)

	Three Months Ended		Change	
	March 31, 2015	2014	\$	%
	(dollars in thousands)			
Cost of revenue (exclusive of depreciation and amortization)	\$ 5,791	\$ 3,720	\$ 2,071	55.7 %
Cost of revenue (exclusive of depreciation and amortization) as a percentage of revenues	9.9 %	8.5 %		

Cost of revenue increased \$2.1 million or 55.7% for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014. The increase is primarily due to a \$1.6 million increase in data costs and licensing fees to support the growth of our business and a \$0.3 million increase in employee salaries and related expenses. Although we expect our cost of revenue to increase in dollar amount as we add additional data sources, we believe that the nature of our cost structure will enable us to continue to realize operating leverage in our business over time.

## Sales and Marketing Expenses

	Three Months Ended		Change	
	March 31, 2015	2014	\$	%
	(dollars in thousands)			
Sales and marketing expenses	\$ 31,709	\$ 27,767	\$ 3,942	14.2 %
Sales and marketing expenses as a percentage of revenues	54.2 %	63.2 %		

Sales and marketing expenses increased \$3.9 million or 14.2% for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014. The increase primarily reflected a \$4.6 million increase in advertising and promotional activities related to increased television, radio and online marketing spend to grow the TrueCar.com brand, a \$1.3 million increase in affinity partner marketing fees related to higher unit sales, a \$0.6 million increase in salaries and related expenses primarily due to our increased headcount, and a \$0.4 million increase in stock-based compensation due to additional stock-based awards. These increases in sales and marketing expenses were partially offset by a decrease of \$2.2 million in warrant expense related to the changes in the warrant's fair value during the service period, resulting primarily from a decrease in the Company's common stock price, and to fewer warrants earned under an affinity group marketing agreement. The increase was also partially offset by a \$0.8 million decrease associated with our one-time purchase of our ticker symbol "TRUE" in the three months ended March 31, 2014. Our sales and marketing expenses as a percentage of revenues decreased to 54.2% for the three months ended March 31, 2015 compared to 63.2% for the same period in 2014,

Table of Contents

primarily as a result of revenues growing at a much higher rate than our sales and marketing expenses. We expect sales and marketing expenses to continue to increase in absolute dollars due to increased television and radio advertising, digital customer acquisition costs, affinity group marketing partner fees, and marketing programs as we grow our business.

## Technology and Development Expenses

	Three Months Ended		Change	
	March 31, 2015	2014	\$	%
	(dollars in thousands)			
Technology and development expenses	\$ 9,760	\$ 7,330	\$ 2,430	33.2 %
Technology and development expenses as a percentage of revenues	16.7 %	16.7 %		
Capitalized software costs	\$ 3,475	\$ 1,989	\$ 1,486	74.7 %

Technology and development expenses increased \$2.4 million or 33.2% for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014. The increase reflected \$1.5 million in increased salaries and related expenses due to our increased headcount, a \$0.9 million increase in software license and hosting expenses, and a \$0.3 million increase in stock-based compensation due to additional stock-based awards. These increases in technology and development expenses were partially offset by a \$0.3 million increase in the amount of salaries and related expenses capitalized for the development of internal use software costs which reduced technology and development expenses during the period. Capitalized software costs increased \$1.5 million primarily due to a \$1.1 million increase in third-party software costs and a \$0.3 million increase in the amount of salaries and related expenses capitalized for the development of internal use software. We expect our technology and development expenses to increase in dollar amount as we continue to increase our developer headcount to expand the functionality of our platform and provide new product offerings. We also expect technology and development expenses to continue to be affected by variations in the amount of capitalized internally developed software.

## General and Administrative Expenses

	Three Months Ended		Change	
	March 31, 2015	2014	\$	%
	(dollars in thousands)			
General and administrative expenses	\$ 18,769	\$ 11,517	\$ 7,252	63.0 %
General and administrative expenses as a percentage of revenues	32.1 %	26.2 %		

General and administrative expenses increased \$7.3 million or 63.0% for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014. The increase reflected \$4.6 million in increased stock-based compensation due to additional stock-based awards, \$1.5 million in increased salaries and related expenses due to our increased headcount, and \$1.0 million in increased professional fees. The increased in professional fees is due to \$2.3 million in increased legal fees related to a claim we filed against Sonic Automotive Holdings, Inc. (“Sonic”), which were partially offset by lower accounting and consulting fees of \$1.3 million. We expect our general and administrative expenses to increase in dollar amount as we increase the headcount in our financial, accounting, and legal organizations and as we add resources to support the anticipated growth of our business and our public company reporting requirements. Additionally, we expect to continue to incur significant legal fees related to our complaint filed against Sonic and to the complaint filed against us purportedly on behalf of automotive dealers who are not on the TrueCar platform.

Table of Contents

## Depreciation and Amortization Expenses

	Three Months Ended		Change	
	March 31, 2015	2014	\$	%
	(dollars in thousands)			
Depreciation and amortization expenses	\$ 3,925	\$ 3,114	\$ 811	26.0 %

Depreciation and amortization expenses decreased \$0.8 million or 26.0% for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The decrease is primarily related to growth in capitalized software costs. We expect our depreciation and amortization expenses to continue to be affected by the amount of our investment in capitalized internally developed software costs, property and equipment, and the timing of placing projects in service.

## Interest Expense

	Three Months Ended		Change	
	March 31, 2015	2014	\$	%
	(dollars in thousands)			
Interest expense	\$ 45	\$ 170	\$ (125)	(73.5)%

Interest expense decreased \$0.1 million or 73.5% for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014, primarily due to a decrease in interest on our outstanding balance of our short term borrowings as we had no short-term borrowings during the three months ended March 31, 2015. This decrease was partially offset by one month's interest expense incurred on our lease financing obligation upon construction completion of our San Francisco leased space in the beginning of March 2015. We expect interest expense on our lease financing obligation to increase in future periods as construction is completed on our build-to-suit leases.

## Provision for Income Taxes

	Three Months Ended		Change	
	March 31, 2015	2014	\$	%
	(dollars in thousands)			
Provision for income taxes	\$ 209	\$ 250	\$ (41)	(16.4)%

Our provision for income taxes for the three months ended March 31, 2015 and 2014 primarily reflected tax expense due to amortization of tax deductible goodwill that is not an available source of income to realize our deferred tax assets.

#### Liquidity and Capital Resources

At March 31, 2015, our principal sources of liquidity were cash and cash equivalents totaling \$143.1 million.

We have incurred cumulative losses of \$222.6 million from our operations through March 31, 2015, and expect to incur additional losses in the future. We believe that our existing sources of liquidity will be sufficient to fund our operations for at least the next 12 months. However, our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities, and the timing and extent of our spending to support our technology and development efforts. To the extent that existing cash and cash equivalents, and cash from operations are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

#### Credit Facility

We had previously entered into a credit facility with a financial institution that provided for advances under a formula-based revolving line of credit and had no amounts outstanding at December 31, 2014.

Table of Contents

In February 2015, we amended our credit facility to provide advances of up to \$35.0 million. This amended credit facility provides a \$10.0 million subfacility for the issuance of letters of credit and contains an increase option permitting us, subject to the lenders consent, to increase the revolving credit facility by up to \$15.0 million, to an aggregate maximum of \$50 million. The credit facility has a three-year term and matures on February 18, 2018. No amounts were outstanding at March 31, 2015. See Note 6 of our consolidated financial statements herein for more information about our amended credit facility.

## Cash Flows

The following table summarizes our cash flows:

	Three Months Ended	
	March 31,	
	2015	2014
Consolidated Cash Flow Data:	(in thousands)	
Net cash used in operating activities	\$ (3,157)	\$ (2,283)
Net cash (used in) provided by investing activities	(5,174)	1,196
Net cash provided by (used in) financing activities	3,861	(157)
Net decrease in cash and cash equivalents	\$ (4,470)	\$ (1,244)

## Operating Activities

Our net loss and cash flows used in operating activities are significantly influenced by our investments in headcount and infrastructure to support our growth, marketing, advertising, and sponsorship expenses. Our net loss has been significantly greater than cash provided by or used in operating activities due to the inclusion of non-cash expenses and charges.

Cash used in operating activities for the three months ended March 31, 2015 was \$3.2 million. This was primarily due to our net loss of \$11.6 million, which, adjusted for non-cash items, including depreciation and amortization expense of \$3.9 million and stock-based compensation expense of \$9.5 million, resulted in \$1.9 million in cash provided by operations. This was offset by a decrease of \$5.0 million in changes to operating assets and liabilities, which primarily reflected a decrease of \$7.4 million in accrued employee expenses related to bonus payments made in the first quarter of 2015. This was partially offset by a \$1.5 million increase in accrued expenses and other liabilities primarily due to increased legal fees and a \$1.3 million decrease in other current assets related to the receipt of a legal settlement in the first quarter of 2015.

Cash used in operating activities for the three months ended March 31, 2014 was \$2.3 million. This was primarily due to our net loss of \$9.9 million, which, adjusted for non-cash items, including depreciation and amortization expense of \$2.9 million, stock-based compensation expense of \$4.1 million, and warrant expense of \$2.4 million, resulted in \$0.1 million in cash provided by operations. This was offset by a decrease of \$2.4 million in changes to operating assets and liabilities, which primarily reflected a \$4.9 million decrease in accrued employee expenses due to the payment of 2013 bonuses during the three months ended March 31, 2014 and a \$2.2 million increase in accounts receivable as a result of our increased revenues. This was partially offset by a \$4.6 million increase in other accrued expenses primarily associated with our increased marketing spend and increased legal, accounting and other professional fees in preparation for our initial public offering and the completion of our 2013 audit during the three months ended March 31, 2014.

### Investing Activities

Our investing activities consist primarily of capital expenditures for capitalized software development costs and property and equipment, and the acquisition of other intangible assets.

Cash used in investing activities of \$5.2 million for the three months ended March 31, 2015 resulted from investments in capitalized software and property and equipment. Property and equipment costs consist primarily of costs incurred to improve our San Francisco and Santa Monica office spaces.

30

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## Table of Contents

Cash provided by investing activities of \$1.2 million for the three months ended March 31, 2014 primarily resulted from \$3.8 million of repayments on notes receivable from related parties, which were partially offset by investments in capitalized software development and property and equipment of \$2.2 million.

### Financing Activities

Cash provided by financing activities of \$3.9 million for the three months ended March 31, 2015 primarily reflects \$3.5 million of proceeds from the exercise of stock options, net of taxes paid for the net share settlement of certain equity awards, and a \$0.3 million tenant improvement reimbursement related to a build-to-suit lease.

Cash used in financing activities of \$0.2 million for the three months ended March 31, 2014 reflects \$0.7 million for payments of costs related to our initial public offering which were largely offset by proceeds from the exercise of stock options of \$0.6 million.

### Contractual Obligations and Known Future Cash Requirements

#### Contractual Obligations

In February 2015, we amended an office lease for approximately 17,000 square feet in Santa Monica, California, to extend the lease term from June 2016 to December 2025. Additionally, beginning in 2016, we will lease approximately 21,000 additional square feet in the building through December 2025. We have the option to extend the lease term for portions of the space, or the entire space, for an additional five year period. The cumulative base rent over the lease term is expected to be approximately \$26.0 million.

In February 2015, we entered into a new five year office lease for approximately 6,000 square feet in Los Angeles, California which commenced in April 2015. We have the option to extend the lease for two additional five year periods. The cumulative base rent over the initial lease term is \$3.0 million.

Also in February 2015, we amended an office lease for approximately 4,000 square feet in Santa Monica, California to extend the lease term from May 2016 to March 2020. Additionally, beginning in March 2015, we will lease approximately 7,000 additional square feet through March 2020. The cumulative base rent over the lease term is expected to be approximately \$3.6 million.

#### Off Balance Sheet Arrangements

We do not engage in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, as part of our ongoing business. Accordingly, our operating results, financial condition and cash flows are not subject to off balance sheet risks.

#### Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue,

expenses, and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions, including, but not limited to, those related to revenue recognition, allowance for doubtful accounts and sales allowances, stock-based compensation, income taxes, goodwill and other intangible assets, internal use capitalized software development costs, and contingencies and litigation. We base our estimates on historical experience and on various other estimates and assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates and assumptions.

There have been no material changes to the critical accounting policies previously disclosed in our annual report on Form 10-K, filed with the SEC on March 12, 2015.

## Table of Contents

### Recent Accounting Pronouncements

See Note 2 to our condensed consolidated financial statements included herein.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the risk of loss that may affect our financial position due to adverse changes in financial market prices and rates. We are exposed to market risks related to changes in interest rates.

#### Interest Rate Risk

We had cash and cash equivalents of \$143.1 million at March 31, 2015, which consists entirely of bank deposits and short-term money market funds. Such interest earning instruments carry a degree of interest rate risk. To date, fluctuations in interest income have not been significant.

We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure.

To the extent we borrow funds under our credit facility, we would be subject to fluctuations in interest rates. See Note 6 to the condensed consolidated financial statements herein. As of March 31, 2015, we had no borrowings under the credit facility. We believe that we do not have a material exposure to changes in the fair value as a result of changes in interest rates.

#### Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. However, if our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, operating results and financial condition.

#### Foreign Currency Exchange Risk

Historically, as our operations and sales have been primarily in the United States, we have not faced any significant foreign currency risk. If we plan for international expansion, our risks associated with fluctuation in currency rates will become greater, and we will continue to reassess our approach to managing this risk.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2015. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (or the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded,

processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2015, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Table of Contents

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

33

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Table of Contents

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

Refer to the disclosure under the heading “Legal Proceedings” in Note 7 “Commitments and Contingencies” to our consolidated financial statements included in this report for legal proceedings.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this report, including our consolidated financial statements and related notes, and Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” before making an investment in our common stock. If any of the following risks is realized, our business, financial condition, operating results and prospects could be materially and adversely affected. In that event, the trading price of our common stock could decline and you could lose part or all of your investment. Additional risks and uncertainties not presently known to us or not believed by us to be material could also impact us.

Risks Related to Our Business and Industry

If key industry participants, including car dealers and automobile manufacturers, perceive us in a negative light or our relationships with them suffer harm, our ability to grow and our financial performance may be damaged.

Our primary source of revenue consists of fees paid by TrueCar Certified Dealers to us in connection with the sales of automobiles to our users. In addition, our value proposition to consumers depends on our ability to provide pricing information on automobiles from a sufficient number of automobile dealers by brand and in a given consumer’s geographic area. If our relationships with our network of TrueCar Certified Dealers suffer harm in a manner that leads to the departure of these dealers from our network, then our revenue and ability to maintain and grow unique visitor traffic will be adversely affected.

At the end of 2011 and the beginning of 2012, due to certain regulatory and publicity-related challenges, many dealers cancelled their agreements with us and our franchise dealer count fell from 5,571 at November 30, 2011 to 3,599 at February 28, 2012.

TrueCar Certified Dealers have no contractual obligation to maintain their relationship with us. Accordingly, these dealers may leave our network at any time or may develop or use other products or services in lieu of ours. Further, while we believe that our service provides a lower cost, accountable customer acquisition channel, dealers may have difficulty rationalizing their marketing spend across TrueCar and other channels, which potentially has the effect of diluting our dealer value proposition. If we are unable to create and maintain a compelling value proposition for dealers to become and remain TrueCar Certified Dealers, our dealer network would not grow and may begin to decline.

In addition, although the automobile dealership industry is fragmented, a small number of groups have significant influence over the industry. These groups include state and national dealership associations, state regulators, car manufacturers, consumer groups, individual dealers and consolidated dealer groups. To the extent that these groups believe that automobile dealerships should not partner with us, this belief may become quickly and widely shared by automobile dealerships and we may lose a significant number of dealers in our network. A significant number of

automobile dealerships are also members of larger dealer groups, and to the extent that a group decides to leave our network, this decision would typically apply to all dealerships within the group.

Furthermore, automobile manufacturers may provide their franchise dealers with financial or other marketing support, provided that such dealers adhere to certain marketing guidelines. Automobile manufacturers may determine that the manner in which certain of their franchise dealers use our platform is inconsistent with the terms of such marketing guidelines, which determination could result in potential or actual loss of the manufacturers' financial or other marketing support to the dealers whose use of the platform is deemed objectionable. The potential or actual loss of such marketing support may cause such dealers to cease being members of our TrueCar Certified Dealer network, which may adversely affect our ability to maintain or grow the number of dealers in our network or the revenue derived from those dealers.

Table of Contents

We cannot assure you that we will maintain strong relationships with the dealers in our network of TrueCar Certified Dealers or that we will not suffer dealer attrition in the future. We may also have disputes with dealers from time to time, including relating to the collection of fees from them and other matters. We may need to modify our products, change pricing or take other actions to address dealer concerns in the future. If a significant number of these automobile dealerships decided to leave our network or change their financial or business relationship with us, then our business, growth, operating results, financial condition and prospects would suffer. Additionally, if we are unable to add dealers to our network, our growth could be impaired.

Our recent, rapid growth may not be indicative of our future growth and, if we continue to grow rapidly, we may not be able to manage our growth effectively.

Our revenue grew from \$38.1 million in 2010 to \$206.6 million in 2014 and from \$43.9 million for the three months ended March 31, 2014 to \$58.6 million for the three months ended March 31, 2015. We expect that, in the future, as our revenue increases, our rate of growth will decline. In addition, we will not be able to grow as fast or at all if we do not accomplish the following:

- maintain and grow our affinity group marketing partner relationships;
- increase the number of users of our products and services, and in particular the number of unique visitors to the TrueCar website and our TrueCar branded mobile applications;
- maintain and expand our dealer network;
- further improve the quality of our existing products and services, and introduce high quality new products and services;
- increase the number of transactions between our users and TrueCar Certified Dealers; and
- introduce third party ancillary products and services.

We may not successfully accomplish any of these objectives. We plan to continue our investment in future growth. We expect to continue to expend substantial financial and other resources on:

- marketing and advertising, including a significant increase to our television advertising expenditures;
- product development; including investments in our product development team and the development of new products and new features for existing products; and
- general administration, including legal, accounting and other compliance expenses related to being a public company.

In addition, our historical rapid growth has placed and may continue to place significant demands on our management and our operational and financial resources. We have also experienced significant growth in the number of users of our platform as well as the amount of data that we analyze. As we continue to grow, we expect to hire additional personnel. Finally, our organizational structure is becoming more complex as we add additional staff, and we will need to improve our operational, financial and management controls as well as our reporting systems and procedures. We will require significant capital expenditures and the allocation of valuable management resources to grow and change in these areas without undermining our corporate culture of rapid innovation, teamwork and attention to the car buying experience for the consumer and the economics of the dealer.



Table of Contents

We may be unable to maintain or grow relationships with information data providers or may experience interruptions in the data feeds they provide, which may limit the information that we are able to provide to our users and dealers as well as the timeliness of such information and may impair our ability to attract or retain consumers and TrueCar Certified Dealers and to timely invoice our dealers.

We receive automobile purchase data from many third-party data providers, including our network of TrueCar Certified Dealers, dealer management system (“DMS”) data feed providers, data aggregators and integrators, survey companies, purveyors of registration data and our affinity group marketing partners. In the states in which we employ a pay-per-sale billing model, we use this data to match purchases with users that obtained a Guaranteed Savings Certificate from a TrueCar Certified Dealer so that we may collect a transaction fee from those dealers and recognize revenue from the related transactions.

From time to time, we experience interruptions in one or more data feeds that we receive from third-party data providers, particularly DMS system data feed providers, in a manner that affects our ability to timely invoice the dealers in our network. These interruptions may occur for a number of reasons, including changes to the software used by these data feed providers and difficulties in renewing our agreements with third-party data feed providers. In the states in which we employ a pay-per-sale billing model, an interruption in the data feeds that we receive may affect our ability to match automobile purchases with users that obtained a Guaranteed Savings Certificate from a TrueCar Certified Dealer, thereby delaying our submission of an invoice to an automobile dealer in our network for a given transaction and delaying the timing of cash receipts from the dealer. The redundancies of data feeds received from multiple providers may not result in sufficient data to match automobile purchases with users that obtained a Guaranteed Savings Certificate from a TrueCar Certified Dealer. In the case of an interruption in our data feeds, our billing structure may transition to a subscription model for automobile dealers in our network until the interruption ceases. However, our subscription billing model may result in lower revenues during an interruption and, when an interruption ceases, we are not always able to retroactively match a transaction and collect a fee. In addition, our likelihood of collection of the fee owed to us for a given transaction decreases for those periods in which we are unable to submit an invoice to automobile dealers. Interruptions which occur in close proximity to the end of a given reporting period could result in delays in our ability to recognize those transaction revenues in that reporting period and these shortfalls in transaction revenue could be material to our operating results.

We have operated our business at scale for a limited period of time and we cannot predict whether we will continue to grow. If we are unable to successfully respond to changes in the market, our business could be harmed.

Our business has grown rapidly as users and automobile dealers have increasingly used our products and services. However, our business is relatively new and has operated at a substantial scale for only a limited period of time. Given this limited history, it is difficult to predict whether we will be able to maintain or grow our business. We expect that our business will evolve in ways which may be difficult to predict. For example, we anticipate that over time we may reach a point when investments in new user traffic are less productive and the continued growth of our revenue will require more focus on increasing the number of transactions from which we derive revenue. It is also possible that car dealers could broadly determine that they no longer believe in the value of our services. In the event of these or any other developments, our continued success will depend on our ability to successfully adjust our strategy to meet the changing market dynamics. If we are unable to do so, our business could be harmed and our results of operations and financial condition could be materially and adversely affected.

We have a history of losses and we may not achieve or maintain profitability in the future.

We have not been profitable since inception and had an accumulated deficit of \$222.6 million at March 31, 2015. From time to time in the past, we have made significant investments in our operations which have not resulted in corresponding revenue growth and, as a result, increased our losses. We expect to make significant future

investments to support the further development and expansion of our business and these investments may not result in increased revenue or growth on a timely basis or at all. In addition, as a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. As a result of these increased expenditures, we have to generate and sustain increased revenue to achieve and maintain profitability.

We may incur significant losses in the future for a number of reasons, including slowing demand for our products and services, increasing competition, weakness in the automobile industry generally, as well as other risks described in this

## Table of Contents

report, and we may encounter unforeseen expenses, difficulties, complications and delays, and other unknown factors. If we incur losses in the future, we may not be able to reduce costs effectively because many of our costs are fixed. In addition, to the extent that we reduce variable costs to respond to losses, this may affect our ability to acquire consumers and dealers and grow our revenues. Accordingly, we may not be able to achieve or maintain profitability and we may continue to incur significant losses in the future, and this could cause the price of our common stock to decline.

The loss of a significant affinity group marketing partner or a significant reduction in the number of cars purchased from our TrueCar Certified Dealers by members of our affinity group marketing partners would reduce our revenue and harm our operating results.

Our financial performance is substantially dependent upon the number of automobiles purchased from TrueCar Certified Dealers by users of the TrueCar website, our branded mobile applications and the car buying sites we maintain for our affinity group marketing partners. Currently, a majority of the automobiles purchased by our users were matched to the car buying sites we maintain for our affinity group marketing partners. As a result, our relationships with our affinity group marketing partners are critical to our business and financial performance. However, several aspects of our relationship with affinity groups might change in a manner that harms our business and financial performance, including:

- affinity group marketing partners might terminate their relationship with us or make such relationship non-exclusive, resulting in a reduction in the number of transactions between users of our platform and TrueCar Certified Dealers;
- affinity group marketing partners might de-emphasize the automobile buying programs within their offerings, resulting in a decrease in the number of transactions between their members and our TrueCar Certified Dealers; or
- the economic structure of our agreements with affinity group marketing partners might change, resulting in a decrease in our operating margins on transactions by their members.

A significant change to our relationships with affinity group marketing partners may have a negative effect on our business in other ways. For example, the termination by an affinity group marketing partner of our relationship may create the perception that our products and services are no longer beneficial to the members of affinity groups or a more general negative association with our business. In addition, a termination by an affinity group marketing partner may result in the loss of the data provided to us by them with respect to automobile transactions. This loss of data may decrease the quantity and quality of the information that we provide to consumers and may also reduce our ability to identify transactions for which we can invoice dealers. If our relationships with affinity group marketing partners change our business, revenue, operating results and prospects may be harmed.

Any adverse change in our relationship with United Services Automobile Association, or USAA, could harm our business.

The single largest source of user traffic from our affinity group marketing partners comes from the site we maintain for USAA, and USAA is our largest single stockholder. At March 31, 2015, USAA beneficially owned 14,496,003 shares, which represented 17.7% of our outstanding shares of common stock. In 2014, nearly 206,000 units, or 34.0% of all units purchased by users from TrueCar Certified Dealers, were matched to users of the car-buying site we maintain for USAA. We define units as the number of automobiles purchased by our users from TrueCar Certified Dealers through the TrueCar website and our branded mobile applications or the car buying sites we maintain for our affinity group marketing partners. As such, USAA has a significant influence on our operating results.

In May 2014, we entered into an extension of our affinity group marketing agreement with USAA that extends through February 13, 2020, but we cannot assure you that our agreement with USAA will be extended at the expiration of the current agreement on terms satisfactory to us, or at all. In addition, USAA has broad discretion in how the car-buying site we maintain for USAA is promoted and marketed on its own website. Changes in this

promotion and marketing has in the past and may in the future adversely affect the volume of user traffic we receive from USAA. Changes in our relationship with USAA or its promotion and marketing of our platform could adversely affect our business and operating results in the future.

## Table of Contents

We are subject to a complex framework of federal and state laws and regulations primarily concerning vehicle sales, advertising and brokering, many of which are unsettled, still developing and contradictory, which have in the past, and could in the future, subject us to claims, challenge our business model or otherwise harm our business.

Various aspects of our business are or may be subject, directly or indirectly, to U.S. federal and state laws and regulations. Failure to comply with such laws or regulations may result in the suspension or termination of our ability to do business in affected jurisdictions or the imposition of significant civil and criminal penalties, including fines or the award of significant damages against us and our TrueCar Certified Dealers in class action or other civil litigation.

### State Motor Vehicle Sales, Advertising and Brokering Laws

The advertising and sale of new or used motor vehicles is highly regulated by the states in which we do business. Although we do not sell motor vehicles, state regulatory authorities or third parties could take the position that some of the regulations applicable to dealers or to the manner in which motor vehicles are advertised and sold generally are directly applicable to our business. If our products and services are determined to not comply with relevant regulatory requirements, we or our TrueCar Certified Dealers could be subject to significant civil and criminal penalties, including fines, or the award of significant damages in class action or other civil litigation as well as orders interfering with our ability to continue providing our products and services in certain states. In addition, even absent such a determination, to the extent dealers are uncertain about the applicability of such laws and regulations to our business, we may lose, or have difficulty increasing the number of, TrueCar Certified Dealers in our network, which would affect our future growth.

Several states in which we do business have laws and regulations that strictly regulate or prohibit the brokering of motor vehicles or the making of so-called “bird-dog” payments by dealers to third parties in connection with the sale of motor vehicles through persons other than licensed salespersons. If our products or services are determined to fall within the scope of such laws or regulations, we may be forced to implement new measures, which could be costly, to reduce our exposure to those obligations, including the discontinuation of certain products or services in affected jurisdictions. Additionally, such a determination could subject us or our TrueCar Certified Dealers to significant civil or criminal penalties, including fines, or the award of significant damages in class action or other civil litigation.

In addition to generally applicable consumer protection laws, many states in which we do business have laws and regulations that specifically regulate the advertising for sale of new or used motor vehicles. These state advertising laws and regulations are frequently subject to multiple interpretations and are not uniform from state to state, sometimes imposing inconsistent requirements on the advertiser of a new or used motor vehicle. If the content displayed on the websites we operate is determined or alleged to be inaccurate or misleading, under motor vehicle advertising laws, generally applicable consumer protection laws, or otherwise, we could be subject to significant civil and criminal penalties, including fines, or the award of significant damages in class action or other civil litigation. Moreover, such allegations, even if unfounded or decided in our favor, could be extremely costly to defend, could require us to pay significant sums in settlements, and could interfere with our ability to continue providing our

products and services in certain states.

From time to time, certain state authorities and dealer associations have taken the position that aspects of our products and services violate state brokering, bird-dog, or advertising laws. When such allegations have arisen, we have endeavored to resolve the identified concerns on a consensual and expeditious basis, through negotiation and education efforts, without resorting to the judicial process. In certain instances, we have nevertheless been obligated to suspend all or certain aspects of our business operations in a state pending the resolution of such issues, the resolution of which included the payment of fines in 2011 and 2012 in the aggregate amount of approximately \$26,000. For example, in the beginning of 2012, following implementation of our first nationwide television advertising campaign, state regulatory inquiries with respect to the compliance of our products and services with state brokering, bird-dog, and advertising laws intensified to a degree not previously experienced by us. Responding to and resolving these inquiries, as well as our efforts to ameliorate the related adverse publicity and loss of TrueCar Certified Dealers from our network, resulted in decreased revenues and increased expenses and, accordingly, increased our losses during much of 2012.

In October 2013, we received an Investigative Demand from the Oregon Attorney General (the "Oregon Inquiry") requesting information regarding potential noncompliance with the Oregon Unlawful Trade Practices Act. We cooperated with the Oregon Department of Justice in an effort to reach consensual resolution of the issues raised by the Oregon Inquiry without making material, unfavorable adjustments to our business practices or user experience in Oregon. We believe we have responded fully to all information requests received in connection with the Oregon Inquiry. No material, unfavorable

## Table of Contents

adjustments to our business practices or user experience in Oregon have been requested or made in connection with the Oregon Inquiry. We currently consider the Oregon Inquiry to be informally resolved, but we cannot assure you that matters related to the Oregon Inquiry will not reemerge in the future.

In May 2014, we received a letter from the Consumer Protection Division of the Mississippi Attorney General's Office (the "Mississippi AG Inquiry") suggesting that we may be acting unlawfully as an auto broker in Mississippi. We cooperated with the Mississippi Attorney General's office in an effort to reach consensual resolution of the issues raised by the Mississippi AG Inquiry without making material unfavorable adjustments to our business practices or user experience in Mississippi. We believe we have responded fully to all information requests received in connection with the Mississippi AG Inquiry. No material, unfavorable adjustments to our business practices or user experience in Mississippi have been requested or made in connection with the Mississippi AG Inquiry, but we cannot assure you that such adjustments will not be requested or made in the future.

In November 2014, we learned that, on or around November 17, 2014, the Mississippi Motor Vehicle Commission (the "MMVC") sent a letter to Mississippi dealers suggesting that we may be acting unlawfully as an auto broker in Mississippi (the "MMVC Letter"). We undertook a dialogue with the MMVC in an effort to reach consensual resolution of the issues raised by the MMVC Letter. Through that dialogue, we were able to achieve such a consensual resolution without making material, unfavorable adjustments to our business practices or user experience in Mississippi. We currently consider the issues raised by the MMVC Letter to be informally resolved, but we cannot assure you that matters related to the MMVC Letter will not reemerge in the future.

If state regulators or other third parties take the position in the future that our products or services violate applicable brokering, bird-dog, or advertising laws or regulations, responding to such allegations could be costly, could require us to pay significant sums in settlements, could require us to pay civil and criminal penalties, including fines, could interfere with our ability to continue providing our products and services in certain states, or could require us to make adjustments to our products and services or the manner in which we derive revenue from our participating dealers, any or all of which could result in substantial adverse publicity, loss of TrueCar Certified Dealers from our network, decreased revenues, increased expenses, and decreased profitability.

## Federal Advertising Regulations

The Federal Trade Commission, or the FTC, has authority to take actions to remedy or prevent advertising practices that it considers to be unfair or deceptive and that affect commerce in the United States. If the FTC takes the position in the future that any aspect of our business constitutes an unfair or deceptive advertising practice, responding to such allegations could require us to pay significant damages, settlements, and civil penalties, or could require us to make adjustments to our products and services, any or all of which could result in substantial adverse publicity, loss of participating dealers, lost revenues, increased expenses, and decreased profitability.

In March 2015, we were named as a defendant in a lawsuit filed in the U.S. District Court in the Southern District of New York. The complaint, purportedly filed on behalf of numerous automotive dealers who are not on the TrueCar platform, alleges that we violated the Lanham Act as well as various state laws prohibiting unfair competition and deceptive acts or practices related to our advertising and promotional activities. For more information concerning this lawsuit, refer to the risk factor below, "We face litigation and are party to legal proceedings that could have a material adverse effect on our business, financial condition, results of operations and cash flows."

Federal Antitrust Laws

The antitrust laws prohibit, among other things, any joint conduct among competitors that would lessen competition in the marketplace. Some of the information that we obtain from dealers is competitively sensitive and, if disclosed inappropriately, could potentially be used by dealers to impede competition or otherwise diminish independent pricing activity. A governmental or private civil action alleging the improper exchange of information, or unlawful participation in price maintenance or other unlawful or anticompetitive activity, even if unfounded, could be costly to defend and adversely impact our ability to maintain and grow our dealer network. For example, we have been informed that the FTC's Bureau of Competition is conducting an investigation to determine whether firms in the retail automotive industry may have violated Section 5 of the Federal Trade Commission Act by agreeing to refuse to deal with us. We received a Civil Investigative



## Table of Contents

Demand dated February 11, 2014 requesting that we produce certain documents and information to the FTC related to the matters under investigation by it. We are cooperating with the FTC in an effort to supply the information required by the request without unduly burdening our resources. We cannot assure you that these efforts will be successful.

In addition, governmental or private civil actions related to the antitrust laws could result in orders suspending or terminating our ability to do business or otherwise altering or limiting certain of our business practices, including the manner in which we handle or disclose dealer pricing information, or the imposition of significant civil or criminal penalties, including fines or the award of significant damages against us and our TrueCar Certified Dealers in class action or other civil litigation.

### Other

The foregoing description of laws and regulations to which we are or may be subject is not exhaustive, and the regulatory framework governing our operations is subject to continuous change. The enactment of new laws and regulations or the interpretation of existing laws and regulations in an unfavorable way may affect the operation of our business, directly or indirectly, which could result in substantial regulatory compliance costs, civil or criminal penalties, including fines, adverse publicity, loss of participating dealers, lost revenues, increased expenses, and decreased profitability. Further, investigations by government agencies, including the FTC, into allegedly anticompetitive, unfair, deceptive or other business practices by us or our TrueCar Certified Dealers, could cause us to incur additional expenses and, if adversely concluded, could result in substantial civil or criminal penalties and significant legal liability.

We face litigation and are party to legal proceedings that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In March 2015, we were named as a defendant in a lawsuit filed in the U.S. District Court in the Southern District of New York. The complaint, purportedly filed on behalf of numerous automotive dealers who are not on the TrueCar platform, alleges that we violated the Lanham Act as well as various state laws prohibiting unfair competition and deceptive acts or practices related to our advertising and promotional activities. The complaint seeks injunctive relief in addition to over \$250 million in damages as a result of the alleged diversion of customers from the plaintiffs' dealerships to TrueCar Certified Dealers. We believe that the complaint is without merit and we intend to vigorously defend ourselves in this matter. Based on the preliminary nature of the proceedings in this case, the outcome of this legal proceeding remains uncertain; however, we may incur significant legal fees, settlements or damage awards resulting from this or other civil litigation. If this matter is not resolved in our favor, losses arising from the results of litigation or settlements, as well as ongoing defense costs, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In addition, we filed a complaint against Sonic Automotive and Sonic Divisional Operations (collectively "Sonic") in August 2013 in the U.S. District Court for the Central District of California. The litigation concerns Sonic's commercial use of the "True Price" mark. We are seeking an injunction prohibiting Sonic from using the "True Price" mark, as well as monetary damages incurred by the Company due to Sonic's unlawful infringement. As the case has only recently reached the end of the fact discovery phase, the future outcome is not reasonably determinable; however, we expect to continue to incur significant legal fees related to our complaint filed against Sonic and to the complaint filed against us purportedly on behalf of automotive dealers who are not on the TrueCar platform. Such legal fees could have a material adverse effect on our financial condition, results of operations and cash flows.

We participate in a highly competitive market, and pressure from existing and new companies may adversely affect our business and operating results.

We face significant competition from companies that provide listings, information, lead generation, and car-buying services designed to reach consumers and enable dealers to reach these consumers.

Our competitors offer various products and services that compete with us. Some of these competitors include:

- Internet search engines and online automotive sites such as Google, AutoTrader.com, and eBay;
  
- Motors, Edmunds.com, KBB.com, Autobytel.com, and Cars.com;

40

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Table of Contents

- sites operated by automobile manufacturers such as General Motors and Ford;
- providers of offline, membership-based car-buying services such as the Costco Auto Program; and
- offline automotive classified listings, such as trade periodicals and local newspapers.

We compete with many of the above-mentioned companies and other companies for a share of car dealers' overall marketing budget for online and offline media marketing spend. To the extent that car dealers view alternative marketing and media strategies to be superior to TrueCar, we may not be able to maintain or grow the number of TrueCar Certified Dealers and our TrueCar Certified Dealers may sell fewer cars to users of our platform, and our business, operating results and financial condition will be harmed.

We also expect that new competitors will continue to enter the online automotive retail industry with competing products and services, which could have an adverse effect on our revenue, business and financial results.

Our competitors could significantly impede our ability to expand our network of TrueCar Certified Dealers and to reach consumers. Our competitors may also develop and market new technologies that render our existing or future products and services less competitive, unmarketable or obsolete. In addition, if our competitors develop products or services with similar or superior functionality to our solutions, we may need to decrease the prices for our solutions in order to remain competitive. If we are unable to maintain our current pricing structure due to competitive pressures, our revenue will be reduced and our operating results will be negatively affected.

Our current and potential competitors may have significantly more financial, technical, marketing and other resources than we have, and the ability to devote greater resources to the development, promotion, and support of their products and services. Additionally, they may have more extensive automotive industry relationships than we have, longer operating histories and greater name recognition. As a result, these competitors may be better able to respond more quickly with new technologies and to undertake more extensive marketing or promotional campaigns. In addition, to the extent any of our competitors have existing relationships with dealers or automobile manufacturers for marketing or data analytics solutions, those dealers and automobile manufacturers may be unwilling to continue to partner with us. If we are unable to compete with these companies, the demand for our products and services could substantially decline.

In addition, if one or more of our competitors were to merge or partner with another of our competitors, the change in the competitive landscape could adversely affect our ability to compete effectively. Our competitors may also establish or strengthen cooperative relationships with our current or future third-party data providers, technology partners, or other parties with whom we have relationships, thereby limiting our ability to develop, improve, and

promote our solutions. We may not be able to compete successfully against current or future competitors, and competitive pressures may harm our revenue, business and financial results.

If we suffer a significant interruption in our ability to gain access to third-party data, our business and operating results will suffer.

Our business also relies on our ability to analyze data for the benefit of our users and the TrueCar Certified Dealers in our network. In addition, the effectiveness of our user acquisition efforts depends in part on the availability of data relating to existing and potential users of our platform. If we experience a material disruption in the data provided to us or if third-party data providers terminate their relationship with us, the information that we provide to our users and TrueCar Certified Dealers may be limited, the quality of this information may suffer, and our business, results of operations and financial conditions could be materially and adversely affected.

The success of our business relies heavily on our marketing and branding efforts, especially with respect to the TrueCar website and our branded mobile applications, as well as those efforts of the affinity group marketing partners whose websites we power, and these efforts may not be successful.

We believe that an important component of our growth will be the growth of our business derived from the TrueCar website and our TrueCar branded mobile applications. Because TrueCar.com is a consumer brand, we rely heavily on

Table of Contents

marketing and advertising to increase the visibility of this brand with potential users of our products and services. We currently advertise through television and radio marketing campaigns, traditional print media, sponsorship programs and other means, the goal of which is to increase the strength, recognition and trust in the TrueCar.com brand and drive more unique visitors to our website and mobile applications. We incurred expenses of \$31.7 million on sales and marketing for the three months ended March 31, 2015.

Our business model relies on our ability to scale rapidly and to decrease incremental user acquisition costs as we grow. Some of our methods of advertising, including our television marketing campaign, are not currently profitable on a standalone basis because they have not yet resulted in the acquisition of sufficient users visiting our website and mobile applications such that we may recover such costs by attaining corresponding revenue growth. If we are unable to recover our marketing costs through increases in user traffic and in the number of transactions by users of our platform, or if we discontinue our broad marketing campaigns, it could have a material adverse effect on our growth, results of operations and financial condition.

In addition, the number of transactions generated by the members of our affinity group marketing partners depends in part on the emphasis that these affinity group marketing partners place on marketing the purchase of cars within their platforms. For example, USAA is a large diversified financial services group of companies serving the United States military community with hundreds of highly competitive product and service offerings. At any given time, USAA's car-buying service may or may not be a priority relative to its other offerings. Consequently, changes in how USAA promotes and markets the car buying site we maintain for them can and has, from time to time in the past, affected the volume of purchases generated by USAA members. For example, in the past USAA adjusted the location and prominence of the links to our platform on their web pages, adversely affecting the volume of traffic. Should USAA or one or more of our other affinity group marketing partners decide to de-emphasize the marketing of our platform, or if their marketing efforts are otherwise unsuccessful, our revenue, business and financial results will be harmed.

If our mobile products do not adequately address the shift to mobile technology by our users, the number of transactions between our users and TrueCar Certified Dealers may not grow as quickly and our operating results could be harmed and our growth could be negatively affected.

Our future success depends in part on the continued growth in the use of our mobile products by our users and the number of transactions with TrueCar Certified Dealers that are completed by those users. In the year ended December 31, 2014, approximately 42% of unique visitors to our TrueCar.com website and the car buying sites we maintain for our affinity group marketing partners were attributable to mobile devices and in the three months ended March 31, 2015, this figure grew to approximately 49%. The shift to mobile technology by our users may harm our business in the following ways:

- we may not continue to innovate and introduce enhanced products on mobile platforms;

- consumers may believe that our competitors offer superior mobile products; or
- our mobile applications may become incompatible with operating systems such as iOS or Android or the devices they support.
- the use of mobile technology may not continue to grow at historical rates, and consumers may not continue to use mobile technology for automobile research;
- mobile technology may not be accepted as a viable long-term platform for a number of reasons, including actual or perceived lack of security of information and possible disruptions of service or connectivity;

If use of our mobile products does not continue to grow, our business and operating results could be harmed.

We rely, in part, on Internet search engines to drive traffic to our website, and if we fail to appear prominently in the search results, our traffic would decline and our business would be adversely affected.

We depend in part on Internet search engines such as Google, Bing, and Yahoo! to drive traffic to our website. For example, when a user types an automobile into an Internet search engine, we rely on a high organic search ranking of our

Table of Contents

webpages in these search results to refer the user to our website. However, our ability to maintain high, non-paid search result rankings is not within our control. Our competitors' Internet search engine optimization efforts may result in their websites receiving a higher search result page ranking than ours, or Internet search engines could revise their methodologies in a way that would adversely affect our search result rankings. If Internet search engines modify their search algorithms in ways that are detrimental to us, or if our competitors' efforts are more successful than ours, overall growth in our user base could slow or our user base could decline. Internet search engine providers could provide automobile dealer and pricing information directly in search results, align with our competitors or choose to develop competing services. Our website has experienced fluctuations in search result rankings in the past, and we anticipate similar fluctuations in the future. Any reduction in the number of users directed to our website through Internet search engines could harm our business and operating results.

The failure to maintain our brand would harm our ability to grow unique visitor traffic and to expand our dealer network.

Maintaining and enhancing the TrueCar brand largely depends on the success of our efforts to maintain the trust of our users and TrueCar Certified Dealers and to deliver value to each of our users and TrueCar Certified Dealers. If our existing or potential users perceive that we are not focused primarily on providing them with a better car-buying experience, our reputation and the strength of our brand will be adversely affected.

Complaints or negative publicity about our business practices, our marketing and advertising campaigns, our compliance with applicable laws and regulations, the integrity of the data that we provide to users, data privacy and security issues, and other aspects of our business, irrespective of their validity, could diminish users' and dealers' confidence in and the use of our products and services and adversely affect our brand. These concerns could also diminish the trust of existing and potential affinity group marketing partners. There can be no assurance that we will be able to maintain or enhance our brand, and failure to do so would harm our business growth prospects and operating results.

If we are unable to provide a compelling car-buying experience to our users, the number of transactions between our users and TrueCar Certified Dealers will decline and our revenue and results of operations will suffer harm.

We cannot assure you that we are able to provide a compelling car-buying experience to our users, and our failure to do so will mean that the number of transactions between our users and TrueCar Certified Dealers will decline and we will be unable to effectively monetize our user traffic. We believe that our ability to provide a compelling car-buying experience is subject to a number of factors, including:

- our ability to launch new products that are effective and have a high degree of consumer engagement;

- compliance of the dealers within our network of TrueCar Certified Dealers with applicable laws, regulations and the rules of our platform, including honoring the TrueCar certificates submitted by our users; and
- our access to a sufficient amount of data to enable us to be able to provide relevant pricing information to consumers.

The growth of our business relies significantly on our ability to increase the number of TrueCar Certified Dealers such that we are able to increase the number of transactions between our users and TrueCar Certified Dealers. Failure to do so would limit our growth.

Our ability to grow the number of TrueCar Certified Dealers, both on an overall basis and by brand in important geographies, is an important factor in growing our business. As described elsewhere in this “Risk Factors” section, we are a new participant in the automobile retail industry, our business has sometimes been viewed in a negative light by car dealerships, and there can be no assurance that we will be able to maintain or grow the number of car dealers in our network.

In addition, our ability to increase the number of TrueCar Certified Dealers in an optimized manner depends on strong relationships with other constituents, including car manufacturers and state dealership associations. From time to time, car manufacturers have communicated concerns about our business to the dealers in our network. For example, some car manufacturers maintain guidelines that prohibit dealers from advertising a car at a price that is below an established floor. If a TrueCar Certified Dealer within our network submits a price to us that falls below pricing guidelines established by the applicable manufacturer, the manufacturer may discourage that dealer from remaining in the network and may discourage



Table of Contents

other dealers within its brand from joining the network. For example, in late 2011, Honda publicly announced that it would not provide advertising allowances to dealers that remained in our network of TrueCar Certified Dealers. While we subsequently addressed Honda's concerns and they ceased withholding advertising allowances from our TrueCar Certified Dealers, discord with specific car manufacturers impedes our ability to grow our dealer network. In addition, state dealership associations maintain significant influence over the dealerships in their state as lobbying groups and as thought leaders. To the extent that these associations view us in a negative light, our reputation with car dealers in the corresponding state may be negatively affected. If our relationships with car manufacturers or state dealership associations suffer, our ability to maintain and grow the number of car dealers in our network will be harmed.

We cannot assure you that we will expand our network of TrueCar Certified Dealers in a manner that provides a sufficient number of dealers by brand and geography for our unique visitors and failure to do so would harm our growth.

Our ability to grow our complementary product offerings may be limited, which could negatively impact our growth rate, revenues and financial performance.

As we introduce or expand additional offerings for our platform, such as automobile trade-ins, financing, leasing, maintenance and insurance, we may incur losses or otherwise fail to enter these markets successfully. Our expansion into these markets will place us in competitive and regulatory environments with which we are unfamiliar and involves various risks, including the need to invest significant resources and the possibility that returns on such investments will not be achieved for several years, if at all. In attempting to establish our new product offerings, such as TrueTrade, and Live Prospect, we expect to incur significant expenses and face various other challenges, such as expanding our sales force and management personnel to cover these markets and complying with complicated regulations that apply to these markets. In addition, we may not successfully demonstrate the value of these ancillary products to consumers, and failure to do so would compromise our ability to successfully expand into these additional revenue streams.

Moreover, our affinity group marketing partners already offer products in many of these adjacent markets. For example, USAA, our largest stockholder and most significant affinity group marketing partner, offers financing and insurance products for its members. For those affinity group marketing partners that offer products in adjacent markets that we seek to enter, our ability to offer products in these markets to their members will be limited. If we are unable to successfully expand our ancillary product offerings, our growth rate, revenue and operating performance may be harmed.

Our business is subject to risks related to the larger automotive ecosystem, including consumer demand, global supply chain challenges and other macroeconomic issues.

Decreases in consumer demand could adversely affect the market for automobile purchases and, as a result, reduce the number of consumers using our platform. Consumer purchases of new and used automobiles generally decline during recessionary periods and other periods in which disposable income is adversely affected. For example, the number of new vehicle sales in the United States decreased from approximately 16.1 million in 2007 to approximately 10.4 million in 2009, according to the Bureau of Economic Analysis. Purchases of new and used 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, 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 automobile dealers and car manufacturers and lead to a reduction in other spending by these constituents, including targeted incentive programs. In addition, our business may be negatively affected by challenges to the larger automotive ecosystem, including global supply chain challenges, such as those resulting from the Japanese tsunami in 2011 and other macroeconomic issues. The foregoing could have a material adverse effect on our business, results of operations and financial condition.

Seasonality may cause fluctuations in our unique visitors, revenue and operating results.

Our revenue trends are a reflection of consumers' car buying patterns. Across the automotive industry, consumers tend to purchase a higher volume of cars in the second and third quarters of each year, due in part to the introduction of new vehicle models from manufacturers. In the past, these seasonal trends have not been pronounced due the overall growth of our business, but we expect that in the future our revenues may be affected by these seasonal trends. Our business will also be impacted by cyclical trends affecting the overall economy, specifically the retail automobile industry, as well as by actual or threatened severe weather events.

Table of Contents

We may require additional capital to pursue our business objectives and respond to business opportunities, challenges or unforeseen circumstances. If capital is not available to us, our business, operating results and financial condition may be harmed.

Since our founding, we have raised substantial equity and debt financing to support the growth of our business. Because we intend to continue to make investments to support the growth of our business, we may require additional capital to pursue our business objectives and respond to business opportunities, challenges or unforeseen circumstances, including to increase our marketing expenditures to improve our brand awareness, develop new products or services or further improve existing products and services, enhance our operating infrastructure and acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. However, additional funds may not be available when we need them, on terms that are acceptable to us, or at all. In addition, our current revolving credit facility contains restrictive covenants relating to our capital raising activities and other financial and operational matters, and any debt financing that we secure in the future could involve further restrictive covenants which may make it more difficult for us to obtain additional capital and to pursue business opportunities. Volatility in the credit markets may also have an adverse effect on our ability to obtain debt financing.

If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to pursue our business objectives and to respond to business opportunities, challenges or unforeseen circumstances could be significantly limited, and our business, operating results, financial condition and prospects could be adversely affected.

We collect, process, store, share, disclose and use personal information and other data, and our actual or perceived failure to protect such information and data could damage our reputation and brand and harm our business and operating results.

We collect, process, store, share, disclose and use personal information and other data provided by consumers and dealers. We rely on encryption and authentication technology licensed from third parties to effect secure transmission of such information. We may need to expend significant resources to protect against security breaches or to address problems caused by breaches. Any failure or perceived failure to maintain the security of personal and other data that is provided to us by consumers and dealers could harm our reputation and brand and expose us to a risk of loss or litigation and possible liability, any of which could harm our business and operating results.

In addition, from time to time, concerns have been expressed about whether our products, services, or processes compromise the privacy of our users. Concerns about our practices with regard to the collection, use or disclosure of

personal information or other privacy related matters, even if unfounded, could harm our business and operating results.

There are numerous federal, state and local laws around the world regarding privacy and the collection, processing, storing, sharing, disclosing, using and protecting of personal information and other data, the scope of which are changing, subject to differing interpretations, and which may be costly to comply with and may be inconsistent between countries and jurisdictions or conflict with other rules. We generally comply with industry standards and are subject to the terms of our privacy policies and privacy-related obligations to third parties. We strive to comply with all applicable laws, policies, legal obligations and industry codes of conduct relating to privacy and data protection, to the extent possible. However, it is possible that these obligations may be interpreted and applied in new ways or in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices or that new regulations could be enacted. Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to consumers or other third parties, or our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of sensitive information, which may include personally identifiable information or other user data, may result in governmental enforcement actions, litigation or public statements against us by consumer advocacy groups or others and could cause consumers and automobile dealers to lose trust in us, which could have an adverse effect on our business. Additionally, if vendors, developers or other third parties that we work with violate applicable laws or our policies, such violations may also put consumer or dealer information at risk and could in turn harm our reputation, business and operating results.

Table of Contents

A significant disruption in service on our website or of our mobile applications could damage our reputation and result in a loss of consumers, which could harm our business, brand, operating results, and financial condition.

Our brand, reputation and ability to attract consumers, affinity groups and advertisers depend on the reliable performance of our technology infrastructure and content delivery. We may experience significant interruptions with our systems in the future. Interruptions in these systems, whether due to system failures, computer viruses, or physical or electronic break-ins, could affect the security or availability of our products on our website and mobile application, and prevent or inhibit the ability of consumers to access our products. Problems with the reliability or security of our systems could harm our reputation, result in a loss of consumers, dealers and affinity group marketing partners, and result in additional costs.

Substantially the entire computer hardware and communications and network infrastructure used to operate our website and mobile applications is located at co-location facilities in Los Angeles and Chicago. Although we have two locations, our systems are not fully redundant. In addition, we do not own or control the operation of these facilities. Our systems and operations are vulnerable to damage or interruption from fire, flood, power loss, telecommunications failure, terrorist attacks, acts of war, electronic and physical break-ins, computer viruses, earthquakes, and similar events. The occurrence of any of these events could result in damage to our systems and hardware or could cause them to fail.

Problems faced by our third-party web hosting providers could adversely affect the experience of our consumers. Our third-party web hosting providers could close their facilities without adequate notice. Any financial difficulties, up to and including bankruptcy, faced by our third-party web hosting providers or any of the service providers with whom they contract may have negative effects on our business, the nature and extent of which are difficult to predict. If our third-party web hosting providers are unable to keep up with our growing capacity needs, our business could be harmed.

Any errors, defects, disruptions, or other performance or reliability problems with our network operations could cause interruptions in access to our products as well as delays and additional expense in arranging new facilities and services and could harm our reputation, business, operating results, and financial condition.

Failure to adequately protect our intellectual property could harm our business and operating results.

Our business depends on our intellectual property, the protection of which is crucial to the success of our business. We rely on a combination of patent, trademark, trade secret and copyright law and contractual restrictions to protect our intellectual property. In addition, we attempt to protect our intellectual property, technology, and confidential information by requiring our employees and consultants to enter into confidentiality and assignment of inventions agreements and third parties to enter into nondisclosure agreements. These agreements may not effectively prevent

unauthorized use or disclosure of our confidential information, intellectual property, or technology and may not provide an adequate remedy in the event of unauthorized use or disclosure of our confidential information, intellectual property, or technology. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our website features, software, and functionality or obtain and use information that we consider proprietary.

Competitors may adopt service names similar to ours, thereby harming our ability to build brand identity and possibly leading to user confusion. For example, we have filed a claim for trademark infringement and related matters against Sonic Automotive, Inc. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of the term “TrueCar.”

We currently hold the “TrueCar.com” and “True.com” Internet domain names as well as various other related domain names. The regulation of domain names in the United States is subject to change. Regulatory bodies could establish additional top-level domains, appoint additional domain name registrars, or modify the requirements for holding domain names. As a result, we may not be able to acquire or maintain all domain names that use the name TrueCar.

We may in the future be subject to intellectual property disputes, which are costly to defend and could harm our business and operating results.

We may from time to time face allegations that we have infringed the trademarks, copyrights, patents and other intellectual property rights of third parties, including from our competitors or non-practicing entities.

Table of Contents

Patent and other intellectual property litigation may be protracted and expensive, and the results are difficult to predict and may require us to stop offering some features, purchase licenses or modify our products and features while we develop non-infringing substitutes or may result in significant settlement costs.

In addition, we use open source software in our products and will use open source software in the future. From time to time, we may face claims against companies that incorporate open source software into their products, claiming ownership of, or demanding release of, the source code, the open source software or derivative works that were developed using such software, or otherwise seeking to enforce the terms of the applicable open source license. These claims could also result in litigation, require us to purchase a costly license or require us to devote additional research and development resources to change our platform or services, any of which would have a negative effect on our business and operating results.

Even if these matters do not result in litigation or are resolved in our favor or without significant cash settlements, these matters, and the time and resources necessary to litigate or resolve them, could harm our business, our operating results and our reputation.

We depend on key personnel to operate our business, and if we are unable to retain, attract and integrate qualified personnel, our ability to develop and successfully grow our business could be harmed.

We believe our success has depended, and continues to depend, on the efforts and talents of our executives and employees, including Scott Painter, our Founder and Chief Executive Officer, and John Krafcik, our President. Our future success depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and we may incur significant costs to attract and retain them. In addition, the loss of any of our senior management or key employees could materially adversely affect our ability to execute our business plan and strategy, and we may not be able to find adequate replacements on a timely basis, or at all. Our executive officers and other employees are at-will employees, which means they may terminate their employment relationship with us at any time, and their knowledge of our business and industry would be extremely difficult to replace. We cannot ensure that we will be able to retain the services of any members of our senior management or other key employees. If we do not succeed in attracting well-qualified employees or retaining and motivating existing employees, our business could be materially and adversely affected.

Complying with the laws and regulations affecting public companies has increased our costs and the demands on management and could harm our operating results.

As a public company, we incur significant legal, accounting, and other expenses that we did not incur as a private company and these expenses will increase after we cease to be an “emerging growth company.” In addition, the Sarbanes-Oxley Act and rules implemented by the SEC and NASDAQ impose various requirements on public

companies, including requiring changes in corporate governance practices. Our management and other personnel devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased and will continue to increase our legal, accounting, and financial compliance costs and have made and will continue to make some activities more time consuming and costly. For example, these rules and regulations make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or to incur substantial costs to maintain the same or similar coverage. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors or our board committees or as executive officers.

As an “emerging growth company” we elect to avail ourselves of the exemption from the Sarbanes-Oxley Act. If we cease to be an “emerging growth company”, we will be required to comply with the Sarbanes-Oxley Act, which requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and the effectiveness of our disclosure controls and procedures quarterly. In particular, beginning with the year ending December 31, 2015, we may be required to evaluate our systems and processes and test our internal control over financial reporting to allow management to report on, and our independent registered public accounting firm to attest to, the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act (“Section 404”). When our independent registered public accounting firm is required to undertake an assessment of our internal control over financial reporting, the cost of our compliance with Section 404 will correspondingly increase. Our compliance with applicable provisions of Section 404 will require that we incur substantial accounting expense and expend significant management time on compliance-related issues as we implement additional corporate governance practices and comply with reporting requirements. Moreover, if we are not able to comply with the requirements of Section 404 applicable to us in a timely



Table of Contents

manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

Furthermore, investor perceptions of our company may suffer if, in the future, material weaknesses are found, and this could cause a decline in the market price of our stock. Irrespective of compliance with Section 404, any failure of our internal control over financial reporting could have a material adverse effect on our stated operating results and harm our reputation. If we are unable to implement these changes effectively or efficiently, it could harm our operations, financial reporting, or financial results and could result in an adverse opinion on internal control from our independent registered public accounting firm.

We may acquire other companies or technologies, which could divert our management's attention, result in additional dilution to our stockholders and otherwise disrupt our operations and harm our operating results.

Our success will depend, in part, on our ability to grow our business in response to the demands of consumers, dealers and other constituents within the automotive industry as well as competitive pressures. In some circumstances, we may determine to do so through the acquisition of complementary businesses and technologies rather than through internal development, such as our acquisition of ALG in 2011. The identification of suitable acquisition candidates can be difficult, time-consuming, and costly, and we may not be able to successfully complete identified acquisitions. The risks we face in connection with acquisitions include:

- diversion of management time and focus from operating our business to addressing acquisition integration challenges;
- coordination of technology, research and development and sales and marketing functions;
- transition of the acquired company's users to our website and mobile applications;
- retention of employees from the acquired company;
- cultural challenges associated with integrating employees from the acquired company into our organization;
- integration of the acquired company's accounting, management information, human resources, and other administrative systems;

- the need to implement or improve controls, procedures, and policies at a business that prior to the acquisition may have lacked effective controls, procedures, and policies;
- potential write-offs of intangibles or other assets acquired in such transactions that may have an adverse effect our operating results in a given period;
- liability for activities of the acquired company before the acquisition, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities, and other known and unknown liabilities; and
- litigation or other claims in connection with the acquired company, including claims from terminated employees, consumers, former stockholders, or other third parties.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of these acquisitions or investments, cause us to incur unanticipated liabilities, and harm our business generally. Future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses, or the write-off of goodwill, any of which could harm our financial condition. Also, the anticipated benefits of any acquisitions may not materialize.

Table of Contents

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

We had goodwill and intangible assets of \$80.2 million at March 31, 2015. Under accounting principles generally accepted in the United States, we review our 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 may not be fully recoverable. We review our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. While we have not recognized any impairment charges since our inception, we may recognize impairment charges in future periods in connection with our acquisitions or from other businesses we may seek to acquire in the future. The carrying value of our goodwill and intangible assets may not be recoverable due to factors such as a decline in our stock price and market capitalization, reduced estimates of future revenues or cash flows or slower growth rates in our industry. Estimates of future revenues and 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 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. In the event we had to reduce the carrying value of our goodwill or intangible assets, any such impairment charge could materially and adversely affect our results of operations.

If our ability to use our net operating loss carryforwards and other tax attributes is limited, we may not receive the benefit of those assets.

We had federal net operating loss carryforwards of approximately \$167.7 million and state net operating loss carryforwards of approximately \$125.9 million at December 31, 2014. The federal and state net operating loss carryforwards begin to expire in the years ending December 31, 2025 and 2019, respectively. At December 31, 2014, we had federal and state research and development credit carryforwards of approximately \$0.8 million and \$0.4 million, respectively. The federal credit carryforwards begin to expire in the year ending December 31, 2028. The state credit carryforwards can be carried forward indefinitely.

The Internal Revenue Code of 1986, as amended, imposes substantial restrictions on the utilization of net operating losses and other tax attributes in the event of an “ownership change” of a corporation. Accordingly, our ability to use pre-change net operating loss and research tax credits may be limited as prescribed under Internal Revenue Code, or IRC, Sections 382 and 383. Therefore, if we generate taxable income in the future, our ability to reduce our Federal income tax liability may be subject to limitation.

Events which may cause limitation in the amount of the net operating losses and credits that we utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50% over a three-year period. As a result of historical equity issuances, we have determined that the annual utilization of our net operating losses and credits and tax credits may be limited pursuant to IRC Sections 382 and 383. Future changes in our stock ownership, including this offering or future offerings, as well as other changes that may be outside our control could potentially

result in further limitations on our ability to utilize our net operating loss and credit carryforwards.

#### Risks Related to Ownership of Our Common Stock

We may fail to meet our publicly announced guidance or other expectations about our business and future operating results, which would cause our stock price to decline.

We have provided and may continue to provide guidance about our business and future operating results, including financial results for the three and six months ending June 30, 2015 as well as the year ending December 31, 2015, as part of our press releases, investor conference calls or otherwise. In developing this guidance, our management must make certain assumptions and judgments about our future performance. Our business results may vary significantly from such guidance due to a number of factors, many of which are outside of our control, and which could materially and adversely affect our operations, financial condition and operating results. Furthermore, if our publicly announced guidance of future operating results fails to meet expectations of securities analysts, investors or other interested parties, the price of our common stock could decline.

Table of Contents

Concentration of ownership among our existing executive officers, directors, and their affiliates may prevent new investors from influencing significant corporate decisions.

As of March 31, 2015, our executive officers, directors, and holders of 5% or more of our outstanding common stock beneficially own, in the aggregate, approximately 63% of our outstanding shares of common stock. Some of these persons or entities may have interests that are different from yours. For example, these stockholders may support proposals and actions with which you may disagree or which are not in your interests. These stockholders are able to exercise a significant level of control over all matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation, and approval of significant corporate transactions. This control could have the effect of delaying or preventing a change of control of our company or changes in management and will make the approval of certain transactions difficult or impossible without the support of these stockholders, which in turn could reduce the price of our common stock.

The price of our common stock has been and may continue to be volatile, and the value of your investment could decline.

The trading price of our common stock has been volatile since our initial public offering and is likely to continue to fluctuate substantially. The trading price of our common stock depends on a number of factors, including those described in this “Risk Factors” section, many of which are beyond our control and may not be related to our operating performance. These fluctuations could cause you to lose all or part of your investment in our common stock since you might be unable to sell your shares at or above the price you paid. Factors that could cause fluctuations in the trading price of our common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of high technology stocks;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- sales of shares of our common stock by us or our stockholders;
- failure of securities analysts to maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- announcements by us or our competitors of new products;

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- the public's reaction to our press releases, other public announcements, and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our operating results or fluctuations in our operating results;
- actual or anticipated developments in our business, our competitors' businesses, or the competitive landscape generally;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations, or principles;

Table of Contents

- any significant change in our management;
- conditions in the automobile industry; and
- general economic conditions and slow or negative growth of our markets.

The effect of such factors on the trading market for our stock may be enhanced by the lack of a large and established trading market for our stock. In addition, the stock market in general, and the market for technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may seriously affect the market price of our common stock, regardless of our actual operating performance. In addition, in the past, following periods of volatility in the overall market and the market prices of a particular company's securities, securities class action litigations have often been instituted against these companies. Litigation of this type, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

Sales of substantial amounts of our common stock in the public markets, or the perception that such sales might occur, could depress the market price of our common stock.

The market price for our common stock could decline as a result of the sale of substantial amounts of our common stock, particularly sales by our directors, executive officers and significant stockholders, a large number of shares of our common stock becoming available for sale or the perception in the market that holders of a large number of shares intend to sell their shares. At March 31, 2015, approximately 81.7 million shares of our common stock were outstanding. In addition, as of March 31, 2015, there were 24.9 million shares underlying options and 0.8 million shares underlying restricted stock units. If these additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our stock could decline. Under Rule 144, shares held by non-affiliates for more than six months may generally be sold without restriction, other than a current public information requirement, and may be sold freely without any restrictions after one year. Shares held by affiliates may also be sold under Rule 144, subject to applicable restrictions, including volume and manner of sale limitations.

If a large enough number of shares become subject to pledging arrangements, then the forced sale of shares of our common stock by the relevant financial institutions as a result of a decline in the market price of our common stock could cause a further decline in the market price of the stock. See the risk factor entitled "Mr. Painter has borrowed against and pledged shares of our common stock to secure a loan. The forced sale of these shares pursuant to a margin call could cause our stock price to decline and negatively impact our business," below.

Stockholders owning a substantial portion of our total outstanding shares are entitled, under contracts providing for registration rights and subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or our stockholders.

Mr. Painter has borrowed against and pledged shares of our common stock to secure a loan. The forced sale of these shares pursuant to a margin call could cause our stock price to decline and negatively impact our business.

Beginning in February 2015, Bank of America has made extensions of credit in the aggregate amount of \$10 million to Scott Painter and the Scott Painter Revocable Living Trust dated August 20, 2014 (the "Trust"). The extension of credit is available for a one-year period with an option to renew.

The loan is secured by pledges of a portion of the TrueCar common stock currently owned by Mr. Painter and the Trust. The terms of the loan were negotiated directly between Mr. Painter and Bank of America. The loan requires Mr. Painter maintain collateral of adequate value. If the price of our common stock declines, Mr. Painter may be forced by Bank of America to provide additional collateral for the loan or to sell shares of TrueCar common stock in order to remain within the margin limitations imposed under the terms of his loan. While we are not a party to this loan, which is full recourse against Mr. Painter and the Trust, Mr. Painter has committed to provide alternative collateral and take other efforts in order to avoid a forced sale of the collateral. It is possible that other executive officers may enter similar pledging arrangements in the future.



## Table of Contents

In the event that Mr. Painter, or any other executive officer, is forced to sell shares of TrueCar common stock as a means to avoid or satisfy a margin call, either due to a decline in our stock price or for other reasons, that action and its disclosure may cause the price of our common stock to decline further.

Anti takeover provisions contained in our certificate of incorporation and bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our certificate of incorporation, bylaws, and Delaware law contain provisions which could have the effect of rendering more difficult, delaying, or preventing an acquisition deemed undesirable by our board of directors. Our corporate governance documents include provisions:

- creating a classified board of directors whose members serve staggered three year terms;
- authorizing “blank check” preferred stock, which could be issued by our board of directors without stockholder approval and may contain voting, liquidation, dividend, and other rights superior to our common stock;
- limiting the liability of, and providing indemnification to, our directors and officers;
- limiting the ability of our stockholders to call and bring business before special meetings;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;
- controlling the procedures for the conduct and scheduling of board of directors and stockholder meetings; and
- providing our board of directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings.

These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation law, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock.

Any provision of our certificate of incorporation, bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they change their recommendations regarding our stock adversely, our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts may publish about us, our business, our market, or our competitors. If any of the analysts who may cover us change their recommendation regarding our stock adversely, or provide more favorable relative recommendations about our competitors, our stock price would likely decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

We do not expect to declare any dividends in the foreseeable future.

We do not anticipate declaring any cash dividends to holders of our common stock in the foreseeable future. In addition, the terms of our credit facility currently prohibit us from paying cash dividends on our capital stock. Consequently,



Table of Contents

investors may need to rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase our common stock.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Sales of Unregistered Securities

In March 2015, we issued 959,676 shares of our common stock to an investor upon the exercise of a warrant to purchase common stock at an exercise price of \$6.02 per share. The exercise was pursuant to a cashless exercise provision and resulted in no proceeds to the Company. The shares were offered and sold in reliance on the exemption from registration provided by Section 4(2) of the Securities Act promulgated thereunder. An appropriate restrictive legend was placed on the stock certificate.

Table of Contents

## Item 6. Exhibits

The documents listed below are incorporated by reference or are filed with this Quarterly Report on Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

Exhibit Number	Description	Incorporated by Reference From Form	Incorporated by Reference from Exhibit Number	Date Filed
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	S-1/A	3.2	5/5/2014
3.2	Amended and Restated Bylaws of the Registrant.	File No. 333-195036 S-1/A	3.4	5/5/2014
10.1	Second Amendment, dated February 18, 2015, to Office Lease, dated October 15, 2010, by and between the Registrant and Douglas Emmett 1995, LLC.	File No. 333-195036 10-K File No. 001-36449	10.18	3/12/2015
10.2	Third Amended & Restated Loan and Security Agreement, dated February 18, 2015, by and between the Registrant and Silicon Valley Bank.	10-K File No. 001-36449	10.22	3/12/2015
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.	Filed herewith		
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.	Filed herewith		
32.1(1)	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.	Furnished herewith		
101.INS	XBRL Instance Document	Filed herewith		
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith		
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith		
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith		
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith		
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith		

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- (1) This certification is deemed not filed for purpose of section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

