TrueCar, Inc.
Form 10-Q
August 09, 2016
Table of Contents

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

FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 001-36449

TRUECAR, INC.
(Exact name of registrant as specified in its charter)

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

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)

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 x 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 x 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 x	Non-accelerated filer ¨ (do not check if a smaller reporting company)	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 x
As of August 3, 2016, 84,606,500 shares of the registrant's common stock were outstanding.

Table of Contents

TRUECAR, INC.
INDEX

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
"anticipates," "believes," "could," "estimates," "expects," "intends," "may," "might," "likely," "plans," "potential," "predicts," or similar expressions and the negatives of those terms. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our future financial performance and our expectations regarding our revenue, cost of revenue, gross profit or gross margin, operating expenses, ability to generate cash flow, and ability to achieve, and maintain, future profitability;
- our relationship with key industry participants, including car dealers and automobile manufacturers;
- anticipated trends, growth rates and challenges in our business and in the markets in which we operate;
- 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 customer base, including our ability to increase the number of high volume brand dealers in our network generally and in key geographies;
- the impact of competition in our industry and innovation by our competitors;
- our anticipated growth and growth strategies, including our ability to increase the rate at which site visitors obtain Guaranteed Savings Certificates and close rates;
- our ability to anticipate or adapt to future changes in our industry;
- the impact of seasonality on our business;
- our ability to hire and retain necessary qualified employees, including anticipated additions to our dealer, product and technology teams;
- our ability to integrate recent additions to our management team;
- the impact of any failure of our solutions or solution innovations;
- our reliance on our third-party service providers;
- the evolution of technology affecting our products, services and markets;
- our ability to adequately protect our intellectual property;
- the anticipated effect on our business of litigation to which we are a party;
- our ability to stay abreast of new or modified laws and regulations that currently apply or become applicable to our business;
- the expense and administrative workload associated with being a public company;
- failure to maintain an effective system of internal controls necessary to accurately report our financial results and prevent fraud;
- our liquidity and working capital requirements;
- the estimates and estimate methodologies used in preparing our consolidated financial statements;
- the future trading prices of our common stock and the impact of securities analysts' reports on these prices;
- the preceding and other factors discussed in Part II, Item 1A, "Risk Factors," and in other reports we may file with the Securities and Exchange Commission from time to time; and
- the factors set forth in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss these risks in greater detail in the section entitled "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. Given these uncertainties, you should not place undue reliance on any forward-looking statements. Forward-looking statements speak only as of the date the statements are made. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

Table of Contents

TRUECAR, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except par value and share data)
(Unaudited)

	June 30, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	$103,120	$112,371
Accounts receivable, net of allowances of $2,291 and $2,720 at June 30, 2016 and December 31, 2015, respectively (includes related party receivables of $314 and $328 at June 30, 2016 and December 31, 2015, respectively)	32,708	33,761
Prepaid expenses	7,387	6,048
Other current assets	982	779
Total current assets	144,197	152,959
Property and equipment, net	68,736	71,390
Goodwill	53,270	53,270
Intangible assets, net	21,749	23,815
Other assets	1,256	940
Total assets	$289,208	$302,374
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable (includes related party payables of $2,332 and $7,490 at June 30, 2016 and December 31, 2015, respectively)	$13,745	$18,880
Accrued employee expenses	8,955	7,799
Accrued expenses and other current liabilities (includes related party accrued expenses of $0 and $318 at June 30, 2016 and December 31, 2015, respectively)	12,821	12,425
Total current liabilities	35,521	39,104
Deferred tax liabilities	2,694	2,413
Lease financing obligations, net of current portion	28,704	26,987
Other liabilities	2,479	1,178
Total liabilities	69,398	69,682
Commitments and contingencies (Note 6)		
Stockholders' Equity		
Preferred stock — $0.0001 par value; 20,000,000 shares authorized at June 30, 2016 and December 31, 2015, respectively; no shares issued and outstanding at June 30, 2016 and December 31, 2015	—	—
Common stock — $0.0001 par value; 1,000,000,000 shares authorized at June 30, 2016 and December 31, 2015; 84,286,286 and 83,016,735 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	8	8
Additional paid-in capital	522,024	508,584
Accumulated deficit	(302,222)	(275,900)
Total stockholders' equity	219,810	232,692
Total liabilities and stockholders' equity	$289,208	$302,374

See accompanying notes to condensed consolidated financial statements.

4

Table of Contents

TRUECAR, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues	$66,427	$65,291	$128,287	$123,845
Costs and operating expenses:				
Cost of revenue (exclusive of depreciation and amortization presented separately below)	6,365	5,927	12,590	11,718
Sales and marketing (includes related party expenses of $3,359 and $6,253 for the three months ended June 30, 2016 and 2015, and $6,660 and $10,171 for the six months ended June 30, 2016 and 2015, respectively)	38,129	40,457	70,240	72,166
Technology and development	14,022	10,979	27,162	20,739
General and administrative	15,998	18,407	31,494	37,176
Depreciation and amortization	5,868	4,119	11,772	8,044
Total costs and operating expenses	80,382	79,889	153,258	149,843
Loss from operations	(13,955)	(14,598)	(24,971)	(25,998)
Interest income	102	24	195	44
Interest expense	(632)	(118)	(1,240)	(163)
Other income	—	3	—	14
Loss before provision for income taxes	(14,485)	(14,689)	(26,016)	(26,103)
Provision for income taxes	170	50	306	259
Net loss	$(14,655)	$(14,739)	$(26,322)	$(26,362)
Net loss per share, basic and diluted	$(0.17)	$(0.18)	$(0.31)	$(0.32)
Weighted average common shares outstanding, basic and diluted	83,931	82,012	83,697	81,241
Other comprehensive loss:				
Comprehensive loss	$(14,655)	$(14,739)	$(26,322)	$(26,362)

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			Accumulated	Stockholders'
	Shares	Amount	APIC	Deficit	Equity
Balance at December 31, 2015	83,016,735	$ 8	$ 508,584	$ (275,900)	$ 232,692
Net loss	—	—	—	(26,322)	(26,322)
Stock-based compensation	—	—	12,260	—	12,260
Shares issued in connection with employee stock plans, net of shares withheld for employee taxes	1,269,551	—	1,180	—	1,180
Balance at June 30, 2016	84,286,286	$ 8	$ 522,024	$ (302,222)	$ 219,810

See accompanying notes to condensed consolidated financial statements.

Table of Contents

TRUECAR, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Cash flows from operating activities		
Net loss	$(26,322)	$(26,362)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	11,677	8,020
Deferred income taxes	281	251
Bad debt expense and other reserves	590	172
Stock-based compensation	11,792	18,620
Common stock warrant expense	—	(480)
Non-cash interest expense on lease financing obligation	411	—
Write-off and loss on disposal of fixed assets	392	25
Changes in operating assets and liabilities:		
Accounts receivable	463	(2,051)
Prepaid expenses	(1,304)	(3,340)
Other current assets	(196)	351
Other assets	(316)	(209)
Accounts payable	(4,364)	(274)
Accrued employee expenses	1,156	(8,192)
Accrued expenses and other liabilities	2,372	1,001
Other liabilities	1,301	11
Net cash used in operating activities	(2,067)	(12,457)
Cash flows from investing activities		
Purchase of property and equipment	(9,785)	(14,032)
Net cash used in investing activities	(9,785)	(14,032)
Cash flows from financing activities		
Repurchase of common stock option awards	(100)	—
Proceeds from exercise of common stock options	1,571	5,206
Taxes paid related to net share settlement of equity awards	(391)	(610)
Proceeds from financing obligation drawdown	1,521	345
Payments for lease financing obligation	—	(22)
Net cash provided by financing activities	2,601	4,919
Net decrease in cash and cash equivalents	(9,251)	(21,570)
Cash and cash equivalents at beginning of period	112,371	147,539
Cash and cash equivalents at end of period	$103,120	$125,969
Supplemental disclosures of non-cash activities		
Recognition of leased facility asset acquired and lease financing obligation	—	22,871
Stock-based compensation capitalized for software development	468	675
Change in capitalized assets included in accounts payable, accrued employee expenses and other accrued expenses	(2,862)	(257)

See accompanying notes to condensed consolidated financial statements.

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 is a digital automotive marketplace that (i) provides pricing transparency about what other people paid for their cars and enables consumers to engage with TrueCar Certified Dealers who are committed to providing a superior purchase experience; (ii) empowers Certified Dealers to attract these informed, in-market consumers in a cost-effective, accountable manner; and (iii) allows automobile manufacturers ("OEMs") to more effectively target their incentive spending at deep-in-market consumers during their purchase process. TrueCar has established an intelligent, data-driven online platform operating on a common technology infrastructure, powered by proprietary data and analytics. Consumers 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 provides discounts to its members.

ALG provides forecasts, consulting, and other 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 10-1 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, 2015 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, 2015 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 10, 2016.

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, lease exit liabilities, 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, the fair value of reporting units in connection with annual goodwill impairment testing, 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 maker ("CODM") is the President and Chief Executive Officer and the Chief Financial Officer, who 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 forecasts, consulting and other revenue (Note 11). 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 March 2016, the FASB issued guidance to simplify several aspects of the accounting for share-based payment award transactions, including accounting for income tax, classification of awards as either equity or liabilities, forfeitures, statutory tax withholding requirements, and classification in the statement of cash flows. The new guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted if it is applied from the beginning of the fiscal year of adoption. The Company is evaluating the methods and impact of adopting this guidance on its consolidated financial statements.

In February 2016, the FASB issued guidance amending the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new guidance will be effective for public entities for annual periods beginning after December 15, 2018 and interim periods therein. Early adoption is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is evaluating the methods and impact of adopting this guidance on its 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. In August 2015, the FASB deferred the effective date to January 1, 2018, with early adoption beginning January 1, 2017. In 2016, the FASB issued additional guidance to clarify the implementation guidance. The Company is evaluating the impact of adopting this guidance on its consolidated financial statements.

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 June 30, 2016 and December 31, 2015 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):

9

Table of Contents

	At June 30, 2016		At December 31, 2015	
	Level 1	Total Fair Value	Level 1	Total Fair Value
Cash equivalents	$103,067	$103,067	$112,131	$112,131
Total Assets	$103,067	$103,067	$112,131	$112,131

4. Property and Equipment, net

Property and equipment consisted of the following at June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016	December 31, 2015
Computer equipment, software, and internally developed software	$60,438	$ 53,862
Furniture and fixtures	3,692	3,575
Leasehold improvements	4,574	4,410
Capitalized facility leases	39,302	39,154
	108,006	101,001
Less: Accumulated depreciation	(39,270)	(29,611)
Total property and equipment, net	$68,736	$ 71,390

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 had taken on certain risks of construction build cost overages above normal tenant improvement allowances. Accordingly, at June 30, 2016 and December 31, 2015, the Company has capitalized $39.3 million and $39.2 million, respectively, related to the Premises, which represents the estimated fair value of the leased properties, additions for capitalized interest incurred during the construction periods, and capitalized costs related to improvements to the building. For the three and six months ended June 30, 2015, the Company capitalized approximately $0.5 million and $1.2 million of interest costs related to the Premises. There were no capitalized interest costs related to the Premises for the three and six months ended June 30, 2016. At June 30, 2016 and December 31, 2015, the Company recorded accumulated amortization of $0.7 million and $0.2 million, respectively. Additionally, at June 30, 2016 and December 31, 2015, the Company recognized a corresponding lease financing obligation of approximately $30.9 million and $28.9 million, respectively.

Included in the table above are property and equipment of $2.2 million and $5.3 million at June 30, 2016 and December 31, 2015, respectively, which are capitalizable, but had not yet been placed in service. The $2.2 million and $5.3 million balances at June 30, 2016 at December 31, 2015, respectively, were comprised primarily of capitalized software not ready for its intended use.

Total depreciation and amortization expense of property and equipment was $4.8 million and $3.1 million for the three months ended June 30, 2016 and 2015, respectively. Total depreciation and amortization expense of property and equipment was $9.7 million and $6.0 million for the six months ended June 30, 2016 and 2015, respectively. Amortization of internal use capitalized software development costs was $3.7 million and $2.2 million for the three months ended June 30, 2016 and 2015, respectively. Amortization of internal use capitalized software development costs was $7.4 million and $4.1 million for the six months ended June 30, 2016 and 2015, respectively.

5. Credit Facility

In February 2015, the Company entered into a third amended and restated loan and security agreement (“Third Amended Credit Facility”) with a financial institution 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

Table of Contents

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 June 30, 2016, 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 June 30, 2016 and December 31, 2015, the Company had no outstanding amounts under the Third Amended Credit Facility. The amount available was $30.4 million, reduced for the letters of credit issued and outstanding under the subfacility of $4.6 million at June 30, 2016.

6. Commitments and Contingencies

Austin Office Lease Commitment

In May 2016, the Company entered into a new office lease for approximately 38,000 square feet near Austin, Texas. The lease is expected to commence in February 2017 and has a ten-year term. 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 approximately $9.9 million.

Lease Exit Costs

In December 2015, the Company consolidated its Santa Monica, California office locations and recognized a liability for lease exit costs incurred based on the remaining lease rental due, reduced by estimated sublease rental income that could be reasonably obtained for the properties. In the second quarter of 2016, the Company updated its estimates of sublease rental income for the spaces exited in December 2015 and recorded an additional $2.7 million in lease exit costs. Due to a deterioration in the local commercial real estate market, the Company now expects both a longer period of time to sublease the spaces as well as lower rental rates than originally estimated in the fourth quarter of 2015. The costs are recorded in general and administrative expense in the consolidated statement of comprehensive loss for the three and six months ended June 30, 2016. The liability is recorded in accrued expenses and other current liabilities (current portion) and other liabilities (non-current portion) within the consolidated balance sheets.

The following table presents a roll forward of the lease exit liability for the six months ended June 30, 2016:

	Lease Exit Costs
Accrual at December 31, 2015	$1,988
Expense	2,684
Cash Payments	(991)
Accrual at June 30, 2016	$3,681

Table of Contents

Legal Proceedings

From time to time, the Company may become subject to legal proceedings, claims, and litigation arising in the ordinary course of business. When the Company becomes aware of a claim or potential claim, it assesses the likelihood of any loss or exposure. In accordance with authoritative guidance, the Company records loss contingencies in its financial statements only for matters in which losses are probable and can be reasonably estimated. Where a range of loss can be reasonably estimated with no best estimate in the range, the Company records the minimum estimated liability. If the loss is not probable or the amount of the loss cannot be reasonably estimated, the Company discloses the nature of the specific claim if the likelihood of a potential loss is reasonably possible and the amount involved is material. The Company continuously assesses the potential liability related to the Company’s pending litigation and revises its estimates when additional information becomes available. The Company is not currently a party to any material legal proceedings, other than as described below.

On March 9, 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 "NY Lanham Act Litigation"). The complaint in the NY Lanham Act Litigation, purportedly filed on behalf of numerous automotive dealers who are not participating 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. Thereafter, the plaintiffs amended their complaint, and on July 13, 2015, the Company filed a motion to dismiss the amended complaint. On January 6, 2016, the Court granted the Company’s motion to dismiss with respect to some, but not all, of the advertising and promotional activities challenged in the amended complaint. The Company believes that the portions of the amended complaint that survived the Company’s motion to dismiss are without merit, and it intends to vigorously defend itself in this matter. We have not recorded an accrual related to this matter as of June 30, 2016, as we do not believe a loss is probable or reasonably estimable.

On May 20, 2015, the Company was named as a defendant in a lawsuit filed by the California New Car Dealers Association in the Superior Court for the County of Los Angeles (the "CNCDA Litigation"). The complaint in the CNCDA Litigation seeks declaratory and injunctive relief based on allegations that the Company is operating in the State of California as an unlicensed automobile dealer and autobroker. The complaint does not seek monetary relief. On July 20, 2015, the Company filed a "demurrer" to the complaint, which is a pleading that requests the court to dismiss the case. Thereafter, the plaintiffs amended their complaint, and on September 11, 2015, the Company filed a demurrer to the amended complaint. On December 7, 2015, the Court granted the Company’s demurrer in its entirety, but afforded the CNCDA the opportunity to file a second amended complaint. The CNCDA filed a second amended complaint on January 4, 2016. The second amended complaint reiterates the claims in the prior complaints and adds claims under theories based on the federal Lanham Act and California unfair competition law. On February 3, 2016, the Company filed a demurrer to the second amended complaint. On March 30, 2016, the Court granted in part and denied in part the Company’s demurrer to the second amended complaint, dismissing the Lanham Act claim but declining to dismiss the balance of the claims at the demurrer stage of the litigation. On May 31, 2016, based on certain intervening developments in state law, the Court announced that it would reconsider its March 30, 2016 order, and it invited the parties to file new briefs on the demurrer issues. On July 15, 2016, the Court heard oral argument on reconsideration of the demurrer issues. On July 25, 2016, the Court granted in part and denied in part the Company’s demurrer to the second amended complaint, just as it had done in its March 30, 2016 order. The Company believes that the portions of the second amended complaint that survived the Court’s reconsideration of the Company’s demurrer are without merit, and it intends to vigorously defend itself in this matter. The Company has not recorded an accrual related to this matter as of June 30, 2016, as the Company does not believe a loss is probable or reasonably estimable.

On May 27, 2015, a purported securities class action complaint was filed in the U.S. District Court for the Central District of California (the “Federal Securities Litigation”) by Satyabrata Mahapatra naming the Company and two other individuals not affiliated with the Company as defendants. On June 15, 2015, the plaintiff filed a Notice of Errata and Correction purporting to name Scott Painter, the Company's then Chief Executive Officer, and Michael Guthrie, the Company's Chief Financial Officer, as individual defendants in lieu of the two individual defendants named in the complaint. On October 5, 2015, the plaintiffs amended their complaint. As amended, the complaint in the Federal Securities Litigation seeks an award of unspecified damages, interest and attorneys' fees based on allegations that the defendants made false and/or misleading statements, and failed to disclose material adverse facts about the Company's business, operations, prospects and performance. Specifically, the amended complaint alleges that during the putative class period, the defendants made false and/or misleading statements and/or failed to disclose that: (i) the Company's business practices violated unfair competition and deceptive trade practice laws (i.e., the issues raised in the NY Lanham Act Litigation); (ii) the Company acts as a dealer and broker in car sales transactions without proper licensing, in violation of various states' laws that govern car sales (i.e., the issues raised in the CNCDA Litigation); and (iii) as a result of the above, the Company's registration statements, prospectuses, quarterly and annual reports, financial statements, SEC filings, press releases, and other statements and documents were materially false and misleading at times relevant to the amended complaint and putative class period. The amended complaint asserts a putative class period stemming from May 16, 2014 to July 23, 2015. On October 19, 2015, the Company filed a motion to dismiss the amended complaint. On December 9, 2015, the Court granted the Company's motion to dismiss and dismissed the case in its entirety. On January 8, 2016, the plaintiff filed a notice of appeal. On June 20, 2016, the plaintiff filed a motion for voluntary dismissal of the appeal. The motion was granted by the Court on June 27, 2016. As the case has been dismissed, no loss is deemed probable and no accrual related to this matter has been recorded as of June 30, 2016.

On December 23, 2015, the Company was named as a defendant in a putative class action lawsuit filed by Gordon Rose in the California Superior Court for the County of Los Angeles (the "California Consumer Class Action"). The complaint asserted claims for unjust enrichment, violation of the California Consumer Legal Remedies Act, and violation of the California Business and Professions Code, based principally on factual allegations similar to those asserted in the NY Lanham Act Litigation and the CNCDA Litigation. The complaint sought an award of unspecified damages, interest, disgorgement, injunctive relief, and attorneys' fees. In the complaint, the plaintiff sought to represent a class of California consumers defined as "[a]ll California consumers who purchased an automobile by using TrueCar, Inc.'s price certificate during the applicable statute of limitations." On January 12, 2016, the Court entered an order staying all proceedings in the case pending an initial status conference, which was previously scheduled for April 13, 2016. On March 16, 2016, the case was reassigned to a different judge. As a result of that reassignment, the initial status conference was rescheduled for and held on May 26, 2016. By stipulation, the stay of discovery has been continued until a second status conference, which is scheduled for October 12, 2016. On July 13, 2016, the plaintiff amended his complaint. The amended complaint continues to assert claims for unjust enrichment, violation of the California Consumer Legal Remedies Act, and violation of the California Business and Professions Code. The amended complaint retains the same proposed class definition as the initial complaint. Like the initial complaint, the amended complaint seeks an award of unspecified damages, interest, disgorgement, injunctive relief, and attorneys' fees. The Company believes that the amended complaint is without merit, and it intends to vigorously defend itself in this matter. The Company has not recorded an accrual related to this matter as of June 30, 2016, as the Company does not believe a loss is probable or reasonably estimable.

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.

In the fourth quarter of 2015, the Company incurred severance costs related to its former CEO and several executive-level employees who terminated their employment. In the second quarter of 2016, the Company incurred additional severance costs totaling $1.8 million related to an executive who terminated during the period and several other employees whose terminations related to a reorganization of the Company's product and technology teams to better align the Company's resources with business objectives during its transition from multiple software platforms to a unified architecture. Of the total, the Company recorded $1.3 million in technology and development and $0.5 million in sales and marketing in the Company's consolidated statements of comprehensive loss for the three and six months ended June 30, 2016.

The following table presents a roll forward of this severance liability for the six months ended June 30, 2016:

	Executive Severance and Reorganization Costs
Accrual at December 31, 2015	2,803
Severance Costs	1,783
Cash Payments	(3,018)
Accrual at June 30, 2016	$ 1,568

13

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 June 30, 2016 and December 31, 2015, 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.

7. Stock-based Awards

Stock Options

A summary of the Company's stock option activity for the six months ended June 30, 2016 is as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)
Outstanding at December 31, 2015	24,277,901	$ 8.12	5.62
Granted	1,241,668	6.28	
Exercised	(703,824)	2.23	
Canceled/forfeited	(1,030,881)	10.88	
Outstanding at June 30, 2016	23,784,864	$ 8.07	5.30

At June 30, 2016, total remaining stock-based compensation expense for unvested stock option awards was $26.2 million, which is expected to be recognized over a weighted-average period of 2.6 years. For the three months ended June 30, 2016 and 2015, the Company recorded stock-based compensation expense for stock option awards of $3.7 million and $7.3 million, respectively. For the six months ended June 30, 2016 and 2015, the Company recorded stock-based compensation expense for stock option awards of $7.5 million, and $14.3 million, respectively.

Restricted Stock Units

Activity in connection with restricted stock units is as follows for the six months ended June 30, 2016:

	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested — December 31, 2015	3,747,340	$ 8.18
Granted	2,194,896	6.79
Vested	(620,210)	8.15
Canceled/forfeited	(399,333)	7.89
Non-vested — June 30, 2016	4,922,693	$ 7.59

At June 30, 2016, total remaining stock-based compensation expense for non-vested restricted stock units is $31.3 million, which is expected to be recognized over a weighted-average period of 3.3 years. The Company recorded $2.2 million and $1.8 million in stock-based compensation expense for restricted stock units for the three months ended June 30, 2016 and 2015, respectively. The Company recorded $4.3 million in stock-based compensation expense for restricted stock units for the six months ended June 30, 2016 and 2015.

Table of Contents

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Cost of revenue	$233	$187	$455	$364
Sales and marketing	1,736	1,218	2,499	2,608
Technology and development	746	1,227	1,825	2,153
General and administrative	3,185	6,535	7,013	13,495
Total stock-based compensation expense	5,900	9,167	11,792	18,620
Amount capitalized to internal software use	223	344	468	675
Total stock-based compensation cost	$6,123	$9,511	$12,260	$19,295

8. 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 $0.1 million income tax expense for the three months ended June 30, 2016 and 2015, respectively. The Company recorded $0.3 million in income tax expense for each of the six months ended June 30, 2016 and 2015.

There were no material changes to the Company's unrecognized tax benefits in the three and six months ended June 30, 2016, 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.

9. 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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net loss	$(14,655)	$(14,739)	$(26,322)	$(26,362)
Weighted-average common shares outstanding	83,931	82,012	83,697	81,241
Net loss per share - basic and diluted	$(0.17)	$(0.18)	$(0.31)	$(0.32)

The following table presents the number of anti-dilutive shares excluded from the calculation of diluted net loss per share at June 30, 2016 and 2015 (in thousands):

	June 30,	
	2016	2015
Options to purchase common stock	23,785	25,350
Common stock warrants	1,605	2,492
Non-vested restricted stock unit awards	4,923	1,271
Total shares excluded from net loss per share	30,313	29,113

Table of Contents

10. Related Party Transactions

Service Provider

From October 2013 to October 2015, an executive officer of the Company was an officer of a firm that provided marketing services to the Company. For the three and six months ended June 30, 2015, the Company recorded sales and marketing expense of $2.8 million and $4.1 million related to this marketing firm. Additionally, for the three and six months ended June 30, 2015, the Company capitalized as property and equipment amounts paid to this marketing firm of $0.6 million.

Transactions with USAA

USAA is the Company's largest stockholder and most significant affinity marketing partner. The Company has entered into arrangements with USAA to operate its Auto Buying Program. The Company has amounts due from USAA at June 30, 2016 and December 31, 2015 of $0.3 million. In addition, the Company has amounts due to USAA at June 30, 2016 and December 31, 2015 of $2.3 million and $7.8 million, respectively. The Company recorded sales and marketing expense of $3.4 million and $3.5 million for the three months ended June 30, 2016 and 2015, respectively, related to service arrangements entered into with USAA. The Company recorded sales and marketing expenses of $6.7 million and $6.1 million for the six months ended June 30, 2016 and 2015, respectively.

11. Revenue Information

The CODM reviews separate revenue information for its Transaction and Forecasts, Consulting 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Transaction revenue	$61,841	$60,408	$119,250	$114,676
Forecasts, consulting and other revenue	4,586	4,883	9,037	9,169
Total revenues	$66,427	$65,291	$128,287	$123,845

12. Subsequent Events

In June and July 2016, the Compensation Committee of the Company's Board of Directors authorized a future issuance of stock option awards of up to 3,060,371 shares of the Company's common stock to be granted in August 2016.

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 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 deliver the best car-buying experience for consumers and provide dealers and automakers with an excellent return on their marketing dollars. 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 on the TrueCar website and our branded mobile experience. In addition, we customize and operate our platform on a co-branded basis for our many affinity group marketing partners, including financial institutions like USAA and American Express, membership-based organizations like Consumer Reports, AARP, Sam's Club, and AAA, and employee buying programs for large enterprises such as IBM and Walmart. 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 also allow automobile manufacturers, known in the industry as OEMs, to connect with TrueCar users in the purchase process and efficiently deliver targeted incentives to consumers.

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, 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 profitably. We benefit OEMs by allowing them to more effectively target their incentive spending at deep-in-market consumers during their purchase process.

Our subsidiary, ALG, Inc., provides forecasts and consulting services regarding 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. We also obtain automobile purchase data from a variety of sources and use this data to provide consumers and dealers with highly accurate, geographically specific, real-time pricing information.

During the three months ended June 30, 2016, we generated revenues of $66.4 million and recorded a net loss of $14.7 million. Of the $66.4 million in revenues, $61.8 million or 93.1%, consisted of transaction revenues with the remaining $4.6 million, or 6.9%, derived primarily from the sale of forecasts, consulting and other revenue to the automotive and financial services industries. Revenues from the sale of forecasts, consulting and other 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.

When compared to the same quarters in prior years, the rate of growth in our revenues has slowed significantly over the past several quarters. This is primarily the result of declines in close rates, which we believe have now begun to stabilize. Over time, we intend to increase the number of transactions on our platform, and thereby revenue, by:

(i) increasing the rate at which visitors to our website and our affinity group marketing partner sites, and users of our mobile applications, obtain a Guaranteed Savings Certificate by investing in delivering a more engaging experience to consumers and dealers;

(ii) improving close rates by investing in additional dealer support personnel to improve and expand our dealer relationships; and
(iii) better communicating the benefits of fully registering on TrueCar to consumers using different and stronger messaging.
This will require continued focus on cost containments in areas outside of our dealer, product, technology, and research efforts in order to invest in the changes that will continue to improve the consumer and dealer experiences and drive revenue growth in the future. We expect our quarter-over-quarter revenue growth to be slow for 2016 as we implement these changes.

Table of Contents

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Average Monthly Unique Visitors	6,683,025	5,953,061	6,686,243	5,736,648
Units(1)	192,531	190,358	367,513	358,917
Monetization	$321	$ 317	$324	$ 320
Franchise Dealer Count	10,135	9,300	10,135	9,300
Transaction Revenue Per Franchise Dealer	$6,370	$ 6,563	$12,403	$ 12,727

(1) We issued full credits of the amount originally invoiced with respect to 4,546 and 2,802 units during the three months ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016 and 2015, we issued full credits of the amount originally invoiced with respect to 8,738 and 5,561 units, 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 12.3% to approximately 6.7 million in the three months ended June 30, 2016 from approximately 6.0 million in the same period of 2015. The number of average monthly unique visitors increased 16.6% to 6.7 million in the six months ended June 30, 2016 from 5.7 million in the same period of 2015. We attribute the growth in our average monthly unique visitors principally to television, radio and digital marketing advertising campaigns that have led to increased brand awareness and also to increased efforts from our affinity group marketing partners to drive increased member awareness and traffic to our platform.

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 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 1.1% to 192,531 in the three months ended June 30, 2016 from 190,358 in the three months ended June 30, 2015 while, as noted above, the number of average monthly unique visitors increased 12.3%. The number of units increased 2.4% to 367,513 in the six months ended June 30, 2016 from 358,917 in the same period of 2015. Historically, the growth in average monthly unique visitors and units has been more closely correlated. During the second half of 2015, we experienced a decline in the proportion of dealers representing high volume brands in our network. As a result, our close rates fell in the fourth quarter of 2015 and first quarter of 2016 and have only marginally recovered in the second quarter of 2016 leading to the slight increase in the number of units sold in the three months ended June 30, 2016, as well as slower revenue growth as compared to growth in average monthly unique visitors.

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 1.3% to $321 during the three months ended June 30, 2016 from $317 for the same period in 2015. For the six months ended six months ended June 30, 2016, our monetization increased 1.3% to $324 from $320 for the same period in 2015. The increase in monetization is primarily a result of an increase in the proportion of used versus new cars, growth in the number of independent dealers in the network, and growth in revenue from automobile manufacturers, known in the industry as OEMs. 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. The network comprises of dealers with a range of unit sales volume per dealer, with dealers representing certain brands consistently achieving higher than average unit sales volume. We view our ability to increase our franchise dealer count, particularly dealers representing high volume brands, 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 was 10,135 at June 30, 2016, an increase from 9,300 at June 30, 2015, and an increase from 9,094 at December 31, 2015 and 9,281 at March 31, 2016. We intend to increase the number of dealers representing high volume brands in our dealer network, generally, and in key geographies, by investing to improve the dealer experience and increasing dealer satisfaction.

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 decreased 2.9% to $6,370 during the three months ended June 30, 2016 compared to $6,563 for the same period in 2015. For the six months ended June 30, 2016, our transaction revenue per franchise dealer decreased 2.5% to $12,403 from $12,727 in the same period of 2015. As discussed above, our close rates fell in the fourth quarter of 2015 and first quarter of 2016 and only marginally recovered during the second quarter of 2016, resulting in slower revenue growth for the three and six months ended June 30, 2016. We intend to grow transaction revenue per franchise dealer as we make investments in our dealer, product, technology, and research efforts. By investing in these efforts, we intend to improve the consumer and dealer experiences, which will help improve close rates.

Non-GAAP Financial Measures

Adjusted EBITDA and Non-GAAP net 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, non-cash warrant expense, stock-based compensation, certain litigation costs, severance charges, real estate exit costs, and income taxes. We define Non-GAAP net loss as net loss adjusted to exclude stock-based compensation, non-cash warrant expense, certain litigation costs, severance charges, and real estate exit costs. We have provided below a reconciliation of each of Adjusted EBITDA and Non-GAAP net loss to net loss, the most directly comparable GAAP financial measure. Neither Adjusted EBITDA nor Non-GAAP net 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 loss measures may not be comparable to similarly titled measures of other organizations as they may not calculate Adjusted EBITDA or Non-GAAP net loss in the same manner as we calculate these

measures.
We have included Adjusted EBITDA and Non-GAAP net 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 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 loss and similar measures are widely used by investors, securities analysts, rating agencies and other parties in evaluating companies as measures of financial performance and debt service capabilities.

Table of Contents

Our use of each of Adjusted EBITDA and Non-GAAP net 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 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 loss reflects the costs to advance our claims in respect of certain litigation or the costs to defend ourselves in various complaints filed against us, which we expect to continue to be significant;
- neither Adjusted EBITDA nor Non-GAAP net loss reflects the severance costs due to a former executive and former members of our product and technology teams affected by a reorganization;
- neither Adjusted EBITDA nor Non-GAAP net loss reflects the real estate exit costs associated with consolidation of the Company's office locations in Santa Monica, California;
- neither Adjusted EBITDA nor Non-GAAP net loss consider the potentially dilutive impact of shares issued or to be issued in connection with stock-based compensation or warrant issuances; and
- other companies, including companies in our own industry, may calculate Adjusted EBITDA and Non-GAAP net loss differently than we do, limiting their usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted EBITDA and Non-GAAP net loss alongside other financial performance measures, including our net loss, our other GAAP results, and various cash flow metrics. In addition, in evaluating Adjusted EBITDA and Non-GAAP net 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 loss, and you should not infer from our presentation of Adjusted EBITDA and Non-GAAP net loss that our future results will not be affected by these expenses or any unusual or non-recurring items.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Reconciliation of Net Loss to Adjusted EBITDA:				
Net loss	$(14,655)	$(14,739)	$(26,322)	$(26,362)
Non-GAAP adjustments:				
Interest income	(102)	(24)	(195)	(44)
Interest expense	632	118	1,240	163
Depreciation and amortization	5,868	4,119	11,772	8,044
Stock-based compensation	5,900	9,167	11,792	18,620
Warrant expense (reduction)	—	(333)	—	(480)
Certain litigation costs (1)	150	2,119	422	4,562
Severance charges (2)	1,783	—	1,783	—
Lease exit costs (3)	2,684	—	2,684	—
Provision for income taxes	170	50	306	259
Adjusted EBITDA	$2,430	$477	$3,482	$4,762

(1) The excluded amounts relate to legal costs incurred in connection with a claim we filed against Sonic Automotive Holdings, Inc., complaints filed by non-TrueCar dealers and the California New Car Dealers Association against TrueCar, and securities and consumer class action lawsuits. We do not believe these costs are a useful indicator of

ongoing operating results and that their exclusion is appropriate to facilitate comparisons of our core operating performance on a period-to-period basis.

(2) We incurred $1.3 million in severance costs in the second quarter of 2016 related to a reorganization of our product and technology teams to better align our resources with business objectives as we transition from multiple software platforms to a unified architecture. In addition, we incurred severance costs of $0.5 million related to an executive who terminated

Table of Contents

during the second quarter of 2016. We believe excluding the impacts of these terminations is consistent with our use of Adjusted EBITDA and Non-GAAP net loss as we do not believe they are useful indicators of ongoing operating results.

(3) Represents updated estimates to our lease termination costs associated with the consolidation of the Company's office locations in Santa Monica, California in December 2015. We believe that their exclusion is appropriate to facilitate period-to-period operating performance comparisons.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Reconciliation of Net Loss to Non-GAAP Net Loss:				
Net loss	$(14,655)	$(14,739)	$(26,322)	$(26,362)
Non-GAAP adjustments:				
Stock-based compensation	5,900	9,167	11,792	18,620
Warrant expense (reduction)	—	(333)	—	(480)
Certain litigation costs (1)	150	2,119	422	4,562
Severance charges (2)	1,783	—	1,783	—
Lease exit costs (3)	2,684	—	2,684	—
Non-GAAP net loss (4)	$(4,138)	$(3,786)	$(9,641)	$(3,660)

(1) The excluded amounts relate to legal costs incurred in connection with a claim we filed against Sonic Automotive Holdings, Inc., complaints filed by non-TrueCar dealers and the California New Car Dealers Association against TrueCar, and securities and consumer class action lawsuits. We do not believe these costs are a useful indicator of ongoing operating results and that their exclusion is appropriate to facilitate comparisons of our core operating performance on a period-to-period basis.

(2) We incurred $1.3 million in severance costs in the second quarter of 2016 related to a reorganization of our product and technology teams to better align our resources with business objectives as we transition from multiple software platforms to a unified architecture. In addition, we incurred severance costs of $0.5 million related to an executive who terminated during the second quarter of 2016. We believe excluding the impacts of these terminations is consistent with our use of Adjusted EBITDA and Non-GAAP net loss as we do not believe they are useful indicators of ongoing operating results.

(3) Represents updated estimates to our lease termination costs associated with the consolidation of the Company's office locations in Santa Monica, California in December 2015. We believe that their exclusion is appropriate to facilitate period-to-period operating performance comparisons.

(4) There is no income tax impact related to the adjustments made to calculate Non-GAAP net loss because of our available net operating loss carryforwards and the full valuation allowance recorded against our net deferred tax assets at June 30, 2016 and June 30, 2015.

Components of Operating Results

Revenues

Our revenues are comprised of transaction revenue, and forecasts, consulting 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

21

Table of Contents

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 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 guaranteed number of sales or introductions multiplied by the contracted price per sale/introduction.

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.

Forecasts, Consulting and Other Revenue. We derive this type of revenue primarily from the provision of forecasts and consulting services to the automotive and financial services industries through our ALG subsidiary. The forecasts 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, employee and consulting costs related to delivering data and consulting services to our customers, and facilities costs. 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, severance, and stock-based compensation expenses; third-party contractor fees; and allocated overhead, including facilities costs. Sales and marketing expenses also include costs related to common stock warrants issued to 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, severance, and stock-based compensation expenses, third-party contractor fees, software license costs, and allocated overhead primarily associated with development of our platform as well as facilities costs, 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, severance, 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, including facilities costs.

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.

Table of Contents

Interest Expense. Interest expense consists primarily of interest on our built-to-suit lease financing obligation.
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 June 30, 2016 and December 31, 2015 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 and six months ended months ended June 30, 2016 and 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Consolidated Statements of Operations Data:				
Revenues	$66,427	$65,291	$128,287	$123,845
Costs and operating expenses:				
Cost of revenue (exclusive of depreciation and amortization presented separately below)	6,365	5,927	12,590	11,718
Sales and marketing	38,129	40,457	70,240	72,166
Technology and development	14,022	10,979	27,162	20,739
General and administrative	15,998	18,407	31,494	37,176
Depreciation and amortization	5,868	4,119	11,772	8,044
Total costs and operating expenses	80,382	79,889	153,258	149,843
Loss from operations	(13,955)	(14,598)	(24,971)	(25,998)
Interest income	102	24	195	44
Interest expense	(632)	(118)	(1,240)	(163)
Other income, net	—	3	—	14
Loss before provision for income taxes	(14,485)	(14,689)	(26,016)	(26,103)
Provision for income taxes	170	50	306	259
Net loss	$(14,655)	$(14,739)	$(26,322	