TrueCar, Inc.
Form 10-Q
November 08, 2018

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 September 30, 2018
¨ 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 every Interactive Data File required to be submitted 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, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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 November 2, 2018, 104,004,690 shares of the registrant’s common stock were outstanding.

TRUECAR, INC.
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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 (the "Exchange Act"), 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," "projects," "seeks," "should," "target," "will," "would" or 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 and ability to grow revenue, scale our business, generate cash flow, fulfill our mission and 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;
- the effectiveness of investments in dealer relationships, consumer messaging and our technology platform and their effect on our revenue;
- our ability to anticipate market needs and develop new and enhanced products and services to meet those needs and our ability to successfully monetize those products and services;
- maintaining and expanding our customer base in key geographies, including our ability to increase the number of high-volume brand dealers in our network generally and in key geographies;
- our reliance on our third-party service providers;
- the impact of competition in our industry and innovation by our competitors;
- our anticipated growth and growth strategies, including our ability to increase close rates and the rate at which site visitors prospect with a TrueCar certified dealer;
- our ability to successfully increase dealer subscription rates, and manage dealer churn, as the number of dealers on subscription billing arrangements increases relative to those on a pay-per-sale billing model;
- our ability to attract significant automobile manufacturers to participate, and remain participants, in our incentive programs;
- our ability to successfully scale our automotive trade-in program to a nationwide offering;
- our ability to anticipate or adapt to future changes in our industry;
- the impact on our business of seasonality, cyclical trends affecting the overall economy and actual or threatened severe weather events;
- our ability to hire and retain necessary qualified employees, including anticipated additions to our dealer, product and technology teams;
- our ability to hire a permanent chief financial officer and integrate him or her and other recent and future additions to our management team;
- our continuing ability to provide customers access to our products;
- our ability to successfully complete our technology replatforming project in a timely manner and leverage that success to enhance our customer experience and launch new product offerings;
- 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 navigate changes in domestic or international economic, political or business conditions, including changes in interest rates, consumer demand and import tariffs;
- our ability to stay abreast of, and in compliance with, new or modified laws and regulations that currently apply or become applicable to our business, including newly-enacted and rapidly-changing data protection and net neutrality laws and regulations and changes in applicable tax laws and regulations;
- the continued expense and administrative workload associated with being a public company;
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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;

- our plans to invest in new businesses, products, services and technologies, systems and infrastructure, including potential investments and acquisitions;
- 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.

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

	September 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$217,749	$197,762
Accounts receivable, net of allowances of $3,006 and $3,030 at September 30, 2018 and December 31, 2017, respectively (includes related party receivables of $361 and $169 at September 30, 2018 and December 31, 2017, respectively)	47,425	39,169
Prepaid expenses	9,291	5,475
Other current assets	5,806	1,145
Total current assets	280,271	243,551
Property and equipment, net	69,174	70,710
Goodwill	53,270	53,270
Intangible assets, net	13,016	15,912
Other assets	5,113	1,391
Total assets	$420,844	$384,834
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable (includes related party payables of $5,659 and $3,200 at September 30, 2018 and December 31, 2017, respectively)	$26,933	$18,620
Accrued employee expenses	5,034	6,568
Accrued expenses and other current liabilities (includes related party accrued expenses of $230 and $52 at September 30, 2018 and December 31, 2017, respectively)	17,561	12,790
Total current liabilities	49,528	37,978
Deferred tax liabilities	605	812
Lease financing obligations, net of current portion	22,959	29,129
Other liabilities	3,910	3,797
Total liabilities	77,002	71,716
Commitments and contingencies (Note 7)		
Stockholders' Equity		
Preferred stock — $0.0001 par value; 20,000,000 shares authorized at September 30, 2018 and December 31, 2017, respectively; no shares issued and outstanding at September 30, 2018 and December 31, 2017	—	—
Common stock — $0.0001 par value; 1,000,000,000 shares authorized at September 30, 2018 and December 31, 2017; 103,819,348 and 100,428,656 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	10	10
Additional paid-in capital	710,921	664,192
Accumulated deficit	(367,089)	(351,084)
Total stockholders' equity	343,842	313,118
Total liabilities and stockholders' equity	$420,844	$384,834

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues	$93,586	$82,440	$262,497	$240,016
Costs and operating expenses:				
Cost of revenue (exclusive of depreciation and amortization presented separately below)	7,737	7,088	22,941	20,610
Sales and marketing (includes related party expenses of $6,514 and $4,207 for the three months ended September 30, 2018 and 2017, and $16,332 and $12,750 for the nine months ended September 30, 2018 and 2017, respectively)	57,031	48,383	157,463	137,498
Technology and development	15,345	15,357	46,633	43,117
General and administrative	14,030	14,993	41,005	44,034
Depreciation and amortization	5,992	5,765	16,808	17,517
Total costs and operating expenses	100,135	91,586	284,850	262,776
Loss from operations	(6,549)	(9,146)	(22,353)	(22,760)
Interest income	888	402	2,242	784
Interest expense	(662)	(654)	(1,985)	(1,955)
Loss before income taxes	(6,323)	(9,398)	(22,096)	(23,931)
(Benefit from) / provision for income taxes	(72)	121	(168)	443
Net loss	$(6,251)	$(9,519)	$(21,928)	$(24,374)
Net loss per share, basic and diluted	$(0.06)	$(0.10)	$(0.22)	$(0.26)
Weighted average common shares outstanding, basic and diluted	102,765	98,665	101,503	93,108
Other comprehensive loss:				
Comprehensive loss	$(6,251)	$(9,519)	$(21,928)	$(24,374)

See accompanying notes to condensed consolidated financial statements.

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, 2017	100,428,656	$ 10	$ 664,192	$ (351,084)	$ 313,118
Cumulative-effect of accounting change adopted as of January 1, 2018				5,923	5,923
Net loss	—	—	—	(21,928)	(21,928)
Stock-based compensation	—	—	29,674	—	29,674
Shares issued in connection with employee stock plans, net of shares withheld for employee taxes	3,390,692	—	17,055	—	17,055
Balance at September 30, 2018	103,819,348	$ 10	$ 710,921	$ (367,089)	$ 343,842

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Cash flows from operating activities		
Net loss	$(21,928)	$(24,374)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	16,808	17,481
Deferred income taxes	(207)	399
Bad debt expense and other reserves	1,240	1,062
Stock-based compensation	28,316	22,661
Non-cash interest expense on lease financing obligation	278	312
Write-off and loss on disposal of fixed assets	294	148
Changes in operating assets and liabilities:		
Accounts receivable	(9,496)	(3,782)
Prepaid expenses	(3,816)	(1,070)
Other current assets	(915)	(167)
Other assets	(760)	(36)
Accounts payable	8,109	7,400
Accrued employee expenses	(1,545)	(2,835)
Accrued expenses and other liabilities	(508)	(1,081)
Other liabilities	113	795
Net cash provided by operating activities	15,983	16,913
Cash flows from investing activities		
Purchase of property and equipment	(13,088)	(15,194)
Net cash used in investing activities	(13,088)	(15,194)
Cash flows from financing activities		
Proceeds from public offering, net of underwriting discounts and offering costs	—	17,398
Proceeds from exercise of common stock options	19,385	71,868
Taxes paid related to net share settlement of equity awards	(2,293)	(2,304)
Net cash provided by financing activities	17,092	86,962
Net increase in cash and cash equivalents	19,987	88,681
Cash and cash equivalents at beginning of period	197,762	107,721
Cash and cash equivalents at end of period	$217,749	$196,402
Supplemental disclosures of non-cash activities		
Stock-based compensation capitalized for software development	1,358	993
Capitalized assets included in accounts payable, accrued employee expenses and other accrued expenses	624	909
Proceeds receivable from disposal of capitalized facility lease, included in other current assets	700	—
Proceeds receivable from exercise of stock options included in other current assets	8	530
Taxes payable related to net share settlement of equity awards included in accrued employee expenses	39	220

See accompanying notes to condensed consolidated financial statements.

TRUECAR, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Nature of Business

TrueCar, Inc. is an Internet-based information, technology, and communication services company. Hereinafter, TrueCar, Inc. and its wholly-owned subsidiaries, including ALG, Inc., are collectively referred to as “TrueCar” or the “Company”; 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 a diverse software ecosystem 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, 2017, except for the accounting policy changes detailed below as a result of the Company’s adoption of the new revenue standard, 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, 2017 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 1, 2018.

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 that are subject to judgment and use of estimates include sales allowances and allowances for doubtful accounts, contract assets, the fair value of assets and liabilities assumed in business combinations, the 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, the fair values

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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 Interim Chief Financial Officer and Chief Accounting Officer, who manage the Company's operations based on consolidated financial information for purposes of evaluating financial performance and allocating resources.

The CODM reviews financial information on a consolidated basis, accompanied by information about Auto Buying Program revenue, OEM incentive revenue, and forecasts, consulting and other revenue (Note 3). All of the Company's principal operations, decision-making functions and assets are located in the United States.

Revenue Recognition

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 replaces all existing revenue recognition guidance under GAAP. The Company adopted the new revenue standard as of January 1, 2018 using the modified retrospective transition method. Results for reporting periods beginning after January 1, 2018 are presented under the new revenue standard, while prior period amounts are not adjusted and continue to be reported in accordance with prior revenue guidance. See Note 3 for further details.

Under the new revenue standard, the Company recognizes revenue when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration it expects to be entitled to in exchange for those goods or services. The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the performance obligation or obligations are satisfied.

Auto Buying Program Revenues

Revenues include fees paid by customers participating in the Company's dealer network with which the Company has an agreement ("TrueCar Certified Dealers" or "Dealers"). TrueCar Certified Dealers pay the Company fees either on a per-vehicle basis for sales to Auto Buying Program users, a per-introduction basis for sales to Auto Buying Program users or in the form of a subscription arrangement. Contracts are cancellable by the Dealer or the Company at any time. The Company does not provide significant dealer financing terms.

The Company's performance obligation to TrueCar Certified Dealers is the same for all payment types for our Auto Buying Program revenues: to provide Dealers with introductions to in-market consumers through the use of the TrueCar platform, so that those Dealers have the opportunity to sell vehicles to those consumers. Control transfers to Dealers upon delivery of introductions, which is the point at which the Company recognizes revenue.

When a user decides to proceed with the user's vehicle purchase through the Company, the user provides his or her name, address, e-mail, and phone number during the process of obtaining a Guaranteed Savings Certificate, which gives the Company the identity and source of a TrueCar introduction provided to a specific Dealer prior to an actual sale occurring. After a sale occurs, the Company receives information regarding the sale, including the identity of the purchaser, via the Dealer Management System used by the Dealer that made the sale. The Company also receives information regarding vehicle sales from a variety of other data sources, including third party car sales aggregators, car dealer networks, and other publicly available sources (collectively, "sales data") and uses this sales data to further verify that a sale has occurred between an Auto Buying Program user and a TrueCar Certified Dealer, as well as to invoice the Dealer shortly after the completion of the sales transaction. Actual vehicle sales data is reported on a daily basis shortly following the date of sale.

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Pay-Per-Sale. Under the old revenue standard, in years prior to 2018, the Company recognized revenue for fee arrangements based on a per-vehicle basis when the vehicle sale had occurred between the Auto Buying Program user and the Dealer. Under the new revenue standard for fee arrangements based on a pay-per-sale billing model, revenue for the Auto Buying Program is recognized when introductions are delivered to the Dealer and for the amount that the Company estimates it will be able to earn. To formulate this estimate, the Company uses the expected value method based primarily on an analysis of historical introductions that result in vehicle sales and further validated by subsequent actual sales information. Under the contractual terms and conditions of arrangements with TrueCar Certified Dealers that pay on a per-vehicle basis, the Dealer is not obligated to pay the Company until a vehicle sale has occurred between the Auto Buying Program user and the Dealer, for which the introduction was provided to the Dealer by the Company. Contractually, the Dealers' obligation to pay is not contingent on verification or acceptance of the transaction by the Dealer. As a result, revenue recognition occurs earlier than billing as an estimate of the variable consideration to be received is determined upon control transfer, resulting in a contract asset.

Pay-Per-Introduction. Under fee arrangements based on a pay-per-introduction billing model, revenue for the Auto Buying Program is recognized when introductions are delivered.

The Company also recognizes revenue from Dealers under subscription agreements. Subscription fee arrangements are short-term in nature with terms ranging from one to six months and are also cancellable by the Dealer or the Company at any time. 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 based on introduction volume, including those subject to downward adjustment based on a minimum number of introductions ("guaranteed introductions"). For all subscription arrangements, the Company recognizes the fees as revenue when introductions are delivered by allocating a portion of the monthly subscription fee to each delivered introduction. For guaranteed sales and guaranteed introduction subscriptions, the amount allocated is adjusted at the end of each month for any credits, as described below. Total revenue recognized in any given month remains unchanged from the old revenue standard for subscription arrangements.

Flat Rate Subscription. Under flat rate subscription arrangements, fees are charged at a monthly flat rate regardless of the number of introductions provided by the Company to the Dealer or sales made to users of the Company's platform by the Dealer.

Guaranteed Sales Subscription. Under guaranteed sales subscription arrangements, monthly 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 the Company's platform is less than the number of guaranteed sales, the Company provides a credit to the Dealer. If the actual number of vehicles sold exceeds the number of guaranteed sales, the Company is not entitled to any additional fees.

Guaranteed Introductions Subscription. Under guaranteed introductions subscription arrangements, monthly 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, the Company provides a credit to the Dealer. If the actual number of introductions provided exceeds the number guaranteed, the Company is not entitled to any additional fees.

OEM Incentives Revenue

The Company enters into arrangements with OEMs to promote the sale of their vehicles primarily through the offering of additional consumer incentives. These manufacturers pay a per-vehicle fee to the Company for promotion of the incentive after the sale of the vehicle has occurred between the Auto Buying Program user and the dealer. Under the old revenue standard, in years prior to 2018, the Company recognized as revenue the per-vehicle incentive fee at the time the sale of the vehicle occurred between the Auto Buying Program user and the dealer. Under the new revenue standard, the Company's performance obligation to OEMs is to deliver incentive offers to consumers. Control transfers upon delivery of incentive offers, which is the point at which the Company recognizes revenue. The Company recognizes revenue for the amount that the Company estimates it will be able to earn. To formulate this estimate, the Company uses the expected value method based primarily on an analysis of historical incentive offers that result in vehicle sales and further validated by subsequent actual sales information. As a result, revenue recognition occurs earlier than billing as an estimate of the variable consideration to be received is determined upon control transfer, resulting in a contract asset.

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Forecasts, Consulting and Other Revenues
Revenues are generated from the sale of forecasts of lease residual value data for new and used leased automobiles, guidebooks, and consulting projects. Sales are principally made to vehicle manufacturers, vehicle financing companies, investment banks, automobile dealers, and insurance companies.
Forecasts and consulting project sales arrangements may include multiple promises to deliver goods and services, such as sale of lease residual forecasts from guidebooks and consulting projects. For revenue arrangements containing multiple promises to transfer goods or services, the Company first determines which of the goods or services are distinct and therefore separate performance obligations. If multiple distinct performance obligations are identified, the total transaction price for a contract is allocated to each performance obligation on a relative standalone selling price basis. In most cases, the goods and services we promise to deliver are sold on a stand-alone basis, which is determined to be the standalone selling price.
Revenue allocated to each performance obligation from the sale of lease residual value forecasts, guidebooks, and consulting projects is recognized when each performance obligation is satisfied. Some residual value data is available via subscription with updated data provided as available during the subscription period or as part of discrete delivered data packages. Sales attributed to residual value data and guidebooks are recognized either over time during the subscription period or when the data or guidebooks are delivered, depending on the terms of the contract, and consulting projects are recognized when the project is delivered.
The Company has elected to use the practical expedient to not disclose the remaining performance obligations for contracts that have durations of one year or less. The Company does not have significant remaining performance obligations in excess of one year.
Incremental Costs to Obtain a Contract
The new revenue standard requires the deferral of the recognition of incremental costs to obtain a contract, which the Company has identified as certain of its sales commissions paid to internal sales representatives for the sale of TrueCar’s services to Dealers. These costs are deferred and then amortized over the expected customer life, which has been determined to be three years based on an analysis of historical and expected customer life. Amortization expense is included within sales and marketing on the accompanying consolidated statements of comprehensive loss. Prior to adoption of the new revenue standard, sales commissions were expensed when incurred.
Other Recent Accounting Pronouncements
In June 2018, the FASB issued new guidance to simplify the accounting for nonemployee share-based payment transactions by expanding the scope of ASC Topic 718, Compensation - Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. Under the new standard, most of the guidance on stock compensation payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. This standard is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.
In January 2017, the FASB issued guidance simplifying the test for goodwill impairment. This standard eliminates Step 2 from the goodwill impairment test, instead requiring an entity to recognize a goodwill impairment charge for the amount by which the goodwill carrying amount exceeds the reporting unit’s fair value. This guidance is effective for interim and annual goodwill impairment tests in fiscal years beginning after December 15, 2019, and early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.
In October 2016, the FASB issued new guidance which requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. This removes the exception to postpone recognition until the asset has been sold to an outside party. This standard is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods, with early adoption permitted. It is required to be applied on a modified retrospective basis through a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The adoption of this guidance did not have a material impact on the Company’s 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.

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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. Upon adoption, the Company will recognize the cumulative effect of adopting this guidance as an adjustment to the opening balance of accumulated deficit. Prior periods will not be retrospectively adjusted. As a result of adoption, the Company expects a material impact as right-of-use assets and lease liabilities are recognized on the consolidated balance sheet, primarily related to office facility leases. The Company continues to evaluate the methods and impact of adopting this guidance on its consolidated financial statements.

3. Revenue Information and Deferred Sales Commissions

Adoption of the New Revenue Standard

On January 1, 2018, the Company adopted the new revenue standard using the modified retrospective method applied to those contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under the new revenue standard, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting.

As a result of adopting the new revenue standard, the Company now recognizes transaction revenue earlier for certain of its Auto Buying Program and OEM incentives arrangements based on estimated variable consideration to be received upon the occurrence of subsequent vehicle sales between the Auto Buying Program user and the Dealer. Upon adoption, the Company recorded a contract asset within other current assets to reflect revenues that would be recognized earlier under the new revenue standard, which is upon delivery of introductions, as well as a corresponding balance of revenue share paid to affinity marketing partners within accounts payable.

Also as a result of adoption, the Company identified an impact related to the recognition of costs to obtain customer contracts. Prior to adoption, sales commissions were expensed as incurred. Under the new revenue standard, certain sales commissions are deferred and recognized over a period of time. The Company recorded an adjustment within the consolidated balance sheet to capitalize these sales commissions as of January 1, 2018 within other assets to reflect the deferred costs that had been expensed under the prior accounting policy for sales commissions.

The cumulative effects of the changes made to the Company's January 1, 2018 consolidated balance sheet were as follows (in thousands):

	December 31, 2017	Adjustments Due to Adoption of New Revenue Standard	January 1, 2018
Assets			
Other current assets	$ 1,145	$ 3,324	$4,469
Other assets	1,391	2,962	4,353
Liabilities			
Accounts payable	$ 18,620	$ 256	$18,876
Accrued expenses and other liabilities	12,790	107	12,897
Stockholders' Equity			
Accumulated deficit	$ (351,084)	$ 5,923	$(345,161)

The impact of adoption of the new revenue standard on the Company's consolidated statement of comprehensive loss and consolidated balance sheet was as follows (in thousands):

Three Months Ended September 30, 2018		
As Reported	Balances Without	Effect of Change Increase/(Decrease)

		Adoption of New Revenue Standard	
Revenues	$93,586	$93,638	$ (52)
Sales and marketing	57,031	56,990	41
Net loss	(6,251)	(6,158)	93

	Nine Months Ended September 30, 2018		
	As Reported	Balances Without Adoption of New Revenue Standard	Effect of Change Increase/(Decrease)
Revenues	$262,497	$261,808	$ 689
Sales and marketing	157,463	157,372	91
Net loss	(21,928)	(22,526)	(598)

	September 30, 2018		
	As Reported	Balances Without Adoption of New Revenue Standard	Effect of Change Increase/(Decrease)
Assets			
Other current assets	$5,806	$1,670	$ 4,136
Other assets	5,113	1,946	3,167
Liabilities			
Accounts payable	$26,933	$26,381	$ 552
Accrued expenses and other liabilities	17,561	17,331	230
Stockholders' Equity			
Accumulated deficit	$(367,089)	$(373,610)	$ 6,521

Deferred Sales Commissions

Deferred sales commissions within other assets were $3.2 million as of September 30, 2018. For the three and nine months ended September 30, 2018, under the new revenue standard, amortization expense for deferred sales commissions was $0.5 million and $1.2 million, respectively, and there was no impairment loss in relation to the costs capitalized in either period. Sales commission expenses under the old standard would have resulted in expenses of $0.5 million and $1.5 million for the three and nine months ended September 30, 2018, respectively.

Contract Balances

The Company's contract asset balance for estimated variable consideration to be received upon the occurrence of subsequent vehicle sales is included within other current assets and is distinguished from accounts receivable in that these amounts are conditional upon subsequent sales and not only upon the passage of time. Substantially all of the contract asset balances of $3.3 million at January 1, 2018 were transferred to accounts receivable during the nine months ended September 30, 2018 as vehicle sales occurred, with no significant changes in the estimate. A contract asset of $4.1 million was recorded as of September 30, 2018 for leads delivered where consideration to be received was still conditional upon subsequent vehicle sales.

Disaggregation of Revenue

The Company disaggregates revenue into three revenue streams: Auto Buying Program revenue, OEM incentives revenue, and forecasts, consulting and other revenue. Prior to adoption of the new revenue standard, Auto Buying Program revenue and OEM incentives revenue had been disclosed together as “transaction revenue.” The following table presents the Company’s revenue categories during the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017(1)	2018	2017(1)
Auto Buying Program revenue	$79,250	$73,402	$226,858	$207,922
OEM incentives revenue	9,456	4,124	21,804	17,239
Forecasts, consulting and other revenue	4,880	4,914	13,835	14,855
Total revenues	$93,586	$82,440	$262,497	$240,016

(1) Prior period amounts have not been adjusted under the modified retrospective method.

4. 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 the following three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

- Level 1 — Quoted prices in active markets for identical assets, 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 September 30, 2018 and December 31, 2017 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 September 30, 2018		At December 31, 2017	
	Level 1	Total Fair Value	Level 1	Total Fair Value
Cash equivalents	$217,748	$217,748	$195,584	$195,584
Total Assets	$217,748	$217,748	$195,584	$195,584

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5. Property and Equipment, net

Property and equipment consisted of the following at September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
Computer equipment, software, and internally developed software	$ 95,182	$ 83,568
Furniture and fixtures	5,284	4,779
Leasehold improvements	8,572	8,342
Capitalized facility leases	38,351	39,302
	147,389	135,991
Less: Accumulated depreciation	(78,215)	(65,281)
Total property and equipment, net	$ 69,174	$ 70,710

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 September 30, 2018 and December 31, 2017, the Company has capitalized $38.4 million and $39.3 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. At September 30, 2018 and December 31, 2017, the Company recorded accumulated amortization of $2.9 million and $2.2 million, respectively. Additionally, at September 30, 2018 and December 31, 2017, the Company recognized a corresponding lease financing obligation of approximately $31.5 million and $31.4 million, respectively.

Included in the table above are property and equipment of $3.0 million and $7.8 million at September 30, 2018 and December 31, 2017, respectively, which are capitalizable but had not yet been placed in service. These balances were comprised primarily of capitalized software not ready for its intended use.

Total depreciation and amortization expense of property and equipment was $5.0 million and $4.8 million for the three months ended September 30, 2018 and 2017. Total depreciation and amortization expense of property and equipment was $13.9 million and $14.6 million for the nine months ended September 30, 2018 and 2017, respectively. Amortization of internal use capitalized software development costs was $3.6 million and $3.4 million for the three months ended September 30, 2018 and 2017, respectively. Amortization of internal use capitalized software development costs was $9.9 million and $10.8 million for the nine months ended September 30, 2018 and 2017, respectively.

6. Credit Facility

The Company had previously entered into a third amended and restated loan and security agreement (the “Third Amended Credit Facility”) with a financial institution that provided for advances under a revolving line of credit and had no outstanding amounts at December 31, 2017. In February 2018, the Company entered into a first amendment to the Third Amended Credit Facility (“First Amendment”).

The Third Amended Credit Facility, as amended by the First Amendment (the “Credit Facility”), has a $35.0 million secured revolving credit facility that expires on February 18, 2021. The 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 lender’s consent, to increase the revolving credit facility by up to $15.0 million, to an aggregate maximum of $50.0 million.

The 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 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 Credit Facility, for LIBOR rate loans. The Company is also obligated to pay an unused revolving line facility fee of 0.00% to 0.20% per annum based on the Company’s adjusted quick ratio.

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The Credit Facility requires the Company to maintain an adjusted quick ratio of at least 1.50 to 1.00 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.

The consolidated leverage ratio is a ratio of all funded indebtedness, including all capital lease obligations, plus all letters of credit under the Credit Facility to the Company's Adjusted EBITDA for the trailing twelve months. Fixed charge coverage ratio is the ratio of the Company's Adjusted EBITDA minus cash income taxes and capital expenditures to its cash interest payments measured on a trailing twelve month-basis. The Credit Facility also limits the Company's ability to pay dividends. At September 30, 2018, 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 September 30, 2018, the Company had no outstanding amounts under the Credit Facility and the amount available was $31.0 million, reduced for the letters of credit issued and outstanding under the subfacility of $4.0 million.

7. Commitments and Contingencies

Lease Exit Costs

In December 2015, the Company consolidated its Santa Monica, California office locations. In accordance with accounting for exit and disposal activities, the Company recognized a liability for lease exit costs incurred once the Company no longer derived economic benefit from the related leases. The liability was determined based on the remaining lease rental due, reduced by estimated sublease rental income that could be reasonably obtained for the properties. The lease terms of the spaces exited expire in 2020. 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 costs were recorded in general and administrative expenses in the consolidated statement of comprehensive loss. In 2015, the Company recorded the initial estimate of lease exit costs. In 2016, the Company updated its estimates of sublease rental income and recorded additional expense due to changes in the local commercial real estate market. In the first quarter of 2017, the Company completed the execution of subleases for its properties and recorded a benefit of $0.1 million in lease exit costs. As of September 30, 2018, the Company recognized a total of $5.2 million in lease exit costs associated with these office locations. The Company does not expect to incur significant additional charges in future periods related to these exits.

The following table presents a roll forward of the lease exit liability for the nine months ended September 30, 2018:

	Lease Exit Costs
Accrual at December 31, 2017	$1,354
Cash Payments	(419)
Accrual at September 30, 2018	$935

San Francisco Lease Termination

In July 2018, the Company reached an agreement with its landlord to terminate its leased office space in San Francisco, California, effective December 31, 2018. As a result of the lease termination, the Company will no longer have future minimum lease commitments related to this office space after the effective date, resulting in a decrease in future commitments of $4.5 million over the original remaining term of six years. Under build-to-suit lease accounting, the Company has capitalized the leased facility and accounted for the lease as a financing lease. At the termination date, the capitalized facility lease asset and the lease financing obligation of $6.9 million will both be de-recognized.

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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 for 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 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 in part and denied in part the Company's motion to dismiss with respect to some, but not all, of the advertising and promotional activities challenged in the amended complaint. Discovery in this matter has been completed. On January 19, 2018, the Company filed a motion to exclude testimony from the plaintiffs' damages expert. On April 10 and 11, 2018, the court held an evidentiary hearing on that motion. On May 9, 2018, the court granted the Company's motion to exclude testimony from the plaintiffs' damages expert. On July 2, 2018, the Company filed a motion for summary judgment seeking dismissal of the amended complaint in its entirety. The court has not yet ruled on that motion. 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. The Company has not recorded an accrual related to this matter as of September 30, 2018, as it does 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 California Superior Court for the County of Los Angeles (the "CNCDA Litigation"). The complaint sought declaratory and injunctive relief based on allegations that the Company was operating in the State of California as an unlicensed automobile dealer and autobroker. The complaint did not seek monetary relief. On July 20, 2015, the Company filed a "demurrer" to the complaint, which is a pleading that requests that the court 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 reiterated the claims in the prior complaints and added 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 litigation was previously scheduled for trial in August 2017. On April 3, 2017, the court indicated that the trial date would be postponed to a future date.

On May 17, 2017, the court scheduled trial to begin on December 11, 2017. Prior to the commencement of trial, the parties entered into settlement negotiations, and on December 14, 2017, the parties entered into a binding Settlement Agreement and Release (the “CNCDA Settlement Agreement”) to fully resolve the litigation. Pursuant to the CNCDA Settlement Agreement, the litigation was dismissed with prejudice on December 21, 2017. In light of the full resolution of this matter pursuant to the CNCDA Settlement Agreement, the Company does not believe that an additional loss is probable.

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 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 attorney’s 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 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 was continued until a second status conference, which was 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, punitive and exemplary damages, interest, disgorgement, injunctive relief and attorney's fees. On September 12, 2016, the Company filed a demurrer to the amended complaint. On October 12, 2016, the court heard oral argument on the demurrer. On October 13, 2016, the court granted in part and denied in part the Company's demurrer to the amended complaint, dismissing the unjust enrichment claim but declining to dismiss the balance of the claims at the demurrer stage of the litigation. At a status conference held on January 26, 2017, the court ruled that discovery could then proceed regarding matters related to class certification only. At a status conference held on July 25, 2017, the court set a deadline of January 8, 2018 for the filing of the plaintiff's motion for class certification and provided that discovery could continue to proceed regarding matters related to class certification only at that time. Subsequently, the court extended to February 7, 2018 the deadline for the filing of plaintiff's motion for class certification and for the completion of related discovery. On February 7, 2018, the plaintiff filed a motion for class certification. The court held a hearing on the plaintiff's class certification motion on July 12, 2018 and denied the motion on July 27, 2018. On September 26, 2018, the plaintiff filed a notice of appeal and proceedings in the trial court have been stayed pending the resolution of the appeal. 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 September 30, 2018 as the Company does not believe a loss is probable or reasonably estimable.

On June 30, 2017, the Company was named as a defendant in a putative class action lawsuit filed by Kip Haas in the U.S. District Court for the Central District of California. The complaint asserted claims for violation of the California Business and Professions Code, based principally on allegations of false and misleading advertising and unfair business practices. The complaint sought an award of unspecified damages, interest, injunctive relief and attorney's fees. In the complaint, the plaintiff sought to represent a class of consumers defined as "[a]ll consumers, who, between the applicable statute of limitations and the present, obtained a TrueCar 'guaranteed' price" and "[a]ll consumers, who, between the applicable statute of limitations and the present, obtained a TrueCar 'guaranteed' price pertaining to a vehicle located at Riverside Mazda." On or around October 23, 2017, the parties reached an agreement in principle to settle this matter on an individual (non-classwide) basis in exchange for the payment of an immaterial amount to Mr. Haas. On November 27, 2017, the parties entered into a binding Confidential Settlement Agreement and Mutual Release (the "Haas Settlement Agreement") on the same financial terms agreed to in principle on or around October 23, 2017. Thereafter, the Company fully satisfied the financial terms of the Haas Settlement Agreement, and pursuant to the Haas Settlement Agreement, the litigation was dismissed with prejudice on December 1, 2017. In light of the full resolution of this matter pursuant to the Haas Settlement Agreement, and the Company does not believe that an additional loss beyond the above-noted immaterial payment is probable.

On October 18, 2017, the Company was named as a defendant in a lawsuit filed by Cox Automotive, Inc. ("Cox Automotive") in the Supreme Court of the State of New York in the County of Nassau. As it relates to the Company, the complaint sought an award of unspecified damages, disgorgement, return of property taken or retained, injunctive relief and attorney's fees. The complaint alleged that the Company engaged in tortious interference with a contractual relationship between Cox Automotive and one of its former employees, among other claims against the former Cox Automotive employee, who is also named as a defendant in the lawsuit. On October 20, 2017, the court granted a temporary restraining order prohibiting the Company from employing the former Cox Automotive employee pending the court's ruling on Cox Automotive's request for the entry of a preliminary injunction. On November 13, 2017, oral argument was held on Cox Automotive’s request for the entry of a preliminary injunction. On January 23, 2018, the court dissolved the temporary restraining order and denied the request by Cox Automotive for the entry of a preliminary injunction. On February 27, 2018, the parties filed a “stipulation of discontinuance,” which terminated the case. The Company was not required to make any monetary payment or provide any other consideration in exchange for the stipulation of discontinuance. In light of the termination of the litigation on this basis, the Company has not recorded an accrual related to this matter as of September 30, 2018, as the Company does not believe a loss is probable.

On March 30, 2018, the Company and one of its former officers were named as defendants in a putative securities class action filed by Leon Milbeck in the U.S. District Court for the Central District of California. The complaint sought an award of unspecified damages, interest, attorney’s fees and equitable relief based on allegations that the defendants made false or misleading statements about our business, operations, prospects and performance during a purported class period of February 16, 2017 through November 6, 2017 in violation of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. On June 27, 2018, the court appointed the Oklahoma Police Pension and Retirement Fund as lead plaintiff. The plaintiff filed an amended complaint on August 24, 2018. The amended complaint reiterated the claims in the prior complaint and added claims under Section 11 of the Exchange Act. The amended complaint also added our chief executive officer Chip Perry, our interim chief financial officer John Pierantoni, our former chief financial officer Michael Guthrie and our underwriters and directors who signed the registration statement for our secondary offering that occurred during the class period as defendants. On October 31, 2018, the plaintiff dismissed the underwriters from the litigation "without prejudice," meaning that they could be reinstated as defendants at a later time, and on November 5, 2018, the Company filed a motion to dismiss the amended complaint. The Company believes that the amended complaint is without merit and intends to vigorously defend itself in this matter. The Company has not recorded an accrual related to this matter as of September 30, 2018 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 of up to twelve months of the executive's annual base salary for certain events such as involuntary terminations.

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 intellectual property infringement claims made by third parties. These indemnities 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 September 30, 2018 and December 31, 2017, 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. Stock-based Awards

Stock Options

A summary of the Company's stock option activity for the nine months ended September 30, 2018 is as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)
Outstanding at December 31, 2017	16,714,216	$ 12.46	7.7
Granted	1,492,481	9.69	
Exercised	(2,126,522)	9.12	
Canceled/forfeited	(1,516,635)	14.45	
Outstanding at September 30, 2018	14,563,540	$ 12.46	7.4

At September 30, 2018, total remaining stock-based compensation expense for unvested stock option awards was $38.6 million, which is expected to be recognized over a weighted-average period of 2.5 years. For the three months ended September 30, 2018 and 2017, the Company recorded stock-based compensation expense for stock option awards of $4.2 million and $5.3 million, respectively. For the nine months ended September 30, 2018 and 2017, the Company recorded stock-based compensation expense for stock option awards of $12.6 million and $12.3 million, respectively.

Restricted Stock Units

Activity in connection with restricted stock units is as follows for the nine months ended September 30, 2018:

	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested — December 31, 2017	7,284,438	$ 11.99
Granted	3,376,074	10.00
Vested	(1,470,214)	10.97
Canceled/forfeited	(759,197)	11.04
Non-vested — September 30, 2018	8,431,101	$ 11.16

At September 30, 2018, total remaining stock-based compensation expense for non-vested restricted stock units is $57.4 million, which is expected to be recognized over a weighted-average period of 2.9 years. The Company recorded $6.1 million and $4.6 million in stock-based compensation expense for restricted stock units for the three months ended September 30, 2018 and 2017, respectively. The Company recorded $15.7 million and $10.4 million in stock-based compensation expense for restricted stock units for the nine months ended September 30, 2018 and 2017, respectively.

Stock-based Compensation Cost

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Cost of revenue	$469	$339	$1,210	$775
Sales and marketing	3,852	3,358	10,522	7,263
Technology and development	2,829	2,598	7,880	5,496
General and administrative	3,097	3,613	8,704	9,127
Total stock-based compensation expense	10,247	9,908	28,316	22,661
Amount capitalized to internal software use	551	443	1,358	993
Total stock-based compensation cost	$10,798	$10,351	$29,674	$23,654

9. Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"), which has several key provisions impacting accounting for and reporting of income taxes. The most significant provisions applicable to the Company include the reduction of the U.S. corporate statutory tax rate from 35% to 21%, the limitations on net operating losses ("NOLs") generated after December 31, 2017 to 80% of taxable income, and the indefinite carryforward period applicable to NOLs generated after December 31, 2017. The Company recorded an income tax benefit of $0.1 million for the three months ended September 30, 2018 and an income tax expense of $0.1 million for the three months ended September 30, 2017. The Company recorded an income tax benefit of $0.2 million for the nine months ended September 30, 2018 and an income tax expense of $0.4 million for the nine months ended September 30, 2017.

As of December 31, 2017, the Company had obtained and analyzed all necessary information to record the effect of the change in tax law, and does not anticipate reporting additional tax effects in the future. However, should the Internal Revenue Service ("IRS") issue further guidance or interpretation of relevant aspects of the new Tax Act, the Company may adjust these amounts.

There were no material changes to the Company's unrecognized tax benefits in the nine months ended September 30, 2018, 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 NOL carryforwards, all income tax years remain open for examination by the IRS and various state taxing authorities.

10. 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	$(6,251)	$(9,519)	$(21,928)	$(24,374)
Weighted-average common shares outstanding	102,765	98,665	101,503	93,108
Net loss per share - basic and diluted	$(0.06)	$(0.10)	$(0.22)	$(0.26)

The following table presents the number of anti-dilutive shares excluded from the calculation of diluted net loss per share at September 30, 2018 and 2017 (in thousands):

	September 30,	
	2018	2017
Options to purchase common stock	14,564	17,089
Common stock warrants	1,459	1,459
Non-vested restricted stock unit awards	5,431	4,847
Total shares excluded from net loss per share	21,454	23,395

11. Related Party Transactions

Transactions with USAA

USAA is a large stockholder in the Company and the Company's most significant affinity marketing partner. The Company has entered into arrangements with USAA to operate its Auto Buying Program. At the time that the Company entered into these arrangements, USAA met the definition of a related party. The Company had amounts due from USAA at September 30, 2018 and December 31, 2017 of $0.4 million and $0.2 million, respectively. In addition, the Company had amounts due to USAA at September 30, 2018 and December 31, 2017 of $5.9 million and $3.3 million, respectively. The Company recorded sales and marketing expense of $6.5 million and $4.2 million for the three months ended September 30, 2018 and 2017, respectively, related to service arrangements entered into with USAA. The Company recorded sales and marketing expense of $16.3 million and $12.8 million for the nine months ended September 30, 2018 and 2017, respectively, related to service arrangements entered into with USAA.

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: We exist to be the most transparent brand in automotive, to serve as a catalyst that dramatically improves the way people discover, buy and sell cars.

We have established a diverse software ecosystem on a common technology infrastructure, powered by proprietary data and analytics. Our company-branded marketplace is available on our TrueCar website and mobile applications. 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, Chase, 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 during 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, model and trim of car in their area and guaranteed savings off the manufacturer's suggested retail price, or MSRP, for that make, model and trim, as well as, in most instances, price offers on actual vehicle inventory, which we refer to as VIN-based offers, from our network of TrueCar Certified Dealers. Guaranteed savings off MSRP are reflected in a Guaranteed Savings Certificate which the consumer may then take to the dealer and apply toward the purchase of the specified make, model and trim of car. VIN-based offers provide consumers with price offers for specific vehicles from specific dealers. 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 network of over 16,000 TrueCar Certified Dealers consists primarily of new car franchises, representing all major makes of cars, as well as independent dealers selling used vehicles. TrueCar Certified Dealers operate in all 50 states and the District of Columbia.

Our subsidiary, ALG, 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.

During the three months ended September 30, 2018, we generated revenues of $93.6 million and recorded a net loss of $6.3 million. During the nine months ended September 30, 2018, we generated revenues of $262.5 million and recorded a net loss of $21.9 million.

At the end of 2017, we identified five key components of our plan for 2018 that would set us up for future revenue re-acceleration and margin expansion. They include:

(i) continued collaboration with USAA;
(ii) continued focus on dealer pricing and monetization;
(iii) growth in OEM incentives revenue;
(iv) nationwide roll-out of our trade-in product; and
(v) the completion of our technology replatforming project.

As we invest in these initiatives during 2018, we expect to incur additional costs in these areas and expect our annual revenue to modestly improve compared to the prior year.

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Average Monthly Unique Visitors	8,005,047	7,702,254	7,857,784	7,420,807
Units(1)	268,026	253,527	748,012	713,313
Monetization	$331	$ 306	$332	$ 316
Franchise Dealer Count	12,549	12,286	12,549	12,286
Independent Dealer Count	3,482	2,938	3,482	2,938

(1) We issued full credits of the amount originally invoiced with respect to 4,981 and 5,048 units during the three months ended September 30, 2018 and 2017, respectively. We issued full credits of the amount originally invoiced with respect to 15,486 and 16,324 units during the nine months ended September 30, 2018 and 2017, 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 3.9% to approximately 8.0 million in the three months ended September 30, 2018 from approximately 7.7 million in the same period of 2017. The number of average monthly unique visitors increased 5.9% to approximately 7.9 million in the nine months ended September 30, 2018 from approximately 7.4 million in the same period of 2017. We attribute the growth in our average monthly unique visitors principally to digital marketing advertising campaigns and also to increased efforts from our affinity group marketing partners to drive greater 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 after 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 most 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 5.7% to 268,026 in the three months ended September 30, 2018 from 253,527 in the three months ended September 30, 2017. The number of units increased 4.9% to 748,012 in the nine months ended September 30, 2018 from 713,313 in the same period of 2017. We attribute this growth in units to the effectiveness of our marketing activities, product enhancements, and the growing number and geographic coverage of TrueCar Certified Dealers in our network.

Monetization

We define monetization as the average transaction revenue per unit, which we calculate by dividing all of our transaction revenue (Auto Buying Program revenue and OEM incentives revenue) in a given period by the number of units in that period. Our monetization increased 8.2% to $331 during the three months ended September 30, 2018 from $306 for the same period in 2017, primarily as a result of growth in OEM incentives revenue. Our monetization increased 5.1% to $332 during the nine months ended September 30, 2018 from $316 for the same period in 2017, primarily as a result of pricing optimization across our dealer network and growth in OEM incentives revenue. 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 providing higher monetization, and the introduction of new products and services, including new OEM incentive programs.

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 is comprised 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 independent non-franchised dealers that primarily sell used cars and are not included in franchise dealer count.

Our franchise dealer count was 12,549 at September 30, 2018, an increase from 12,286 at September 30, 2017, an increase from 12,142 at December 31, 2017, an increase from 12,205 at March 31, 2018, and an increase from 12,368 at June 30, 2018. Note that our franchise dealer count excludes Genesis franchises on our program due to Hyundai’s transition of Genesis to a stand-alone brand. In order to facilitate period over period comparisons, we have continued to count each Hyundai franchise that also has a Genesis franchise as one franchise dealer rather than two. 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.

Independent Dealer Count

We define independent dealer count as the number of independent dealers in the network of TrueCar Certified Dealers at the end of a given period that exclusively sell used vehicles and are not directly affiliated with a new car manufacturer. This number is calculated by counting each location individually, and includes both single-location proprietorships as well as large consolidated dealer groups. Our independent dealer count was 3,482 at September 30, 2018, an increase from 2,938 at September 30, 2017, an increase from 2,979 at December 31, 2017, an increase from 3,006 at March 31, 2018, and an increase from 3,166 at June 30, 2018.

Non-GAAP Financial Measures

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

We use Adjusted EBITDA and Non-GAAP net income as operating performance measures as each is (i) an integral part of our reporting and planning processes; (ii) used by our management and board of directors to assess our operational performance, and together with operational objectives, as a measure in evaluating employee compensation and bonuses; and (iii) used by our management to make financial and strategic planning decisions regarding future operating investments. We believe that using Adjusted EBITDA and Non-GAAP net income 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 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.

Our use of each of Adjusted EBITDA and Non-GAAP net income 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 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 reflects the costs to advance our claims in 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 income reflects the lease exit costs associated with consolidation of the Company's office locations in Santa Monica, California in December 2015;
- neither Adjusted EBITDA nor Non-GAAP net income considers the potentially dilutive impact of shares issued or to be issued in connection with stock-based compensation; and
- other companies, including companies in our own industry, may calculate Adjusted EBITDA and Non-GAAP net income differently than we do, limiting their usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted EBITDA and Non-GAAP net income 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 income 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, and you should not infer from our presentation of Adjusted EBITDA and Non-GAAP net income 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)		(in thousands)	
Reconciliation of Net Loss to Adjusted EBITDA:				
Net loss	$(6,251)	$(9,519)	$(21,928)	$(24,374)
Non-GAAP adjustments:				
Interest income	(888)	(402)	(2,242)	(784)
Interest expense	662	654	1,985	1,955
Depreciation and amortization	5,992	5,765	16,808	17,517
Stock-based compensation	10,247	9,908	28,316	22,661
Certain litigation costs (1)	335	1,491	1,996	4,140
Lease exit costs (2)	—	—	—	(133)
(Benefit from) / provision for income taxes	(72)	121	(168)	443
Adjusted EBITDA	$10,025	$8,018	$24,767	$21,425

(1) The excluded amounts relate to legal costs incurred in connection with complaints filed by non-TrueCar dealers and the California New Car Dealers Association against TrueCar and consumer class action lawsuits. We believe the exclusion of these costs is appropriate to facilitate comparisons of our core operating performance on a period-to-period basis. Based on the nature of the specific claims underlying the excluded litigation matters, once these matters are resolved, we do not believe our operations are likely

to entail defending against the types of claims raised by these matters. We expect the cost of defending these claims to continue to be significant pending that resolution.

(2) The excluded amounts represent updates to the initial estimate of lease termination costs associated with the consolidation of our 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 income for each of the periods presented:

Three Months Ended September 30,		Nine Months Ended September 30,	
2018	2017	2018	2017