

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019

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
(State or other jurisdiction of
incorporation or organization)

04-3807511
(I.R.S. Employer
Identification Number)

120 Broadway, Suite 200
Santa Monica, California 90401
(Address of principal executive offices and Zip Code)
(800) 200-2000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, par value \$0.0001 per share

Trading Symbol(s)
TRUE

Name of each exchange on which registered
The Nasdaq Global Select Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically 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 such files). Yes 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 an 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 Accelerated filer Non-accelerated filer 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 Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 28, 2019, the last business day of the registrant's most recently completed second fiscal quarter, was \$528,887,252 based upon the closing price reported for such date on the Nasdaq Global Select Market.

As of February 21, 2020, the registrant had 107,082,458 shares of common stock outstanding.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement on Schedule 14A for the 2020 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. That Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2019. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

TRUECAR, INC.
FORM 10-K

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As used in this Annual Report on Form 10-K, the terms “TrueCar,” “the Company,” “we,” “us” and “our” refer to TrueCar, Inc., and its wholly owned subsidiaries, TrueCar Dealer Solutions, Inc., ALG, Inc. and DealerScience, LLC, unless the context indicates otherwise. TrueCar Dealer Solutions, Inc. is referred to as “TCDS,” ALG, Inc. is referred to as “ALG” and DealerScience, LLC is referred to as “DealerScience.”

Special Note Regarding Forward Looking Statements

This Annual Report on Form 10-K 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 like “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “might,” “likely,” “plans,” “potential,” “predicts,” “projects,” “seeks,” “should,” “target,” “will,” “would” or similar expressions and the negatives of those terms. Forward-looking statements contained in this Annual Report on Form 10-K 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;
- 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 ability to wind down our partnership with USAA Federal Savings Bank in a manner that minimizes disruption to our business, and our ability to mitigate the long-term financial effect of the termination of that partnership;
- our ability to maintain and grow our existing additional affinity partner relationships, and to attract new affinity partners to offer our services to their members;
- 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;
- our ability to attract significant automobile manufacturers to participate, and remain participants, in our incentive programs;
- our ability to increase the number of dealers participating in our automotive trade-in program and successfully monetize the TrueCar Trade product;
- 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 a chief executive officer and integrate him or her and other recent additions into our management team;
- our ability to hire and retain necessary qualified employees, including anticipated additions to our product and technology teams;
- our continuing ability to provide customers access to our products;
- our ability to maintain and scale our technical infrastructure and leverage our technology platform 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 outcome, and effect on our business, of litigation to which we are a party, including our ability to settle any such litigation;
- 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 privacy, 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;

- our ability 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;
- our ability to effectively and timely integrate our operations with those of any business we acquire, including DealerScience, and related factors, including the difficulties associated with such integration (such as the difficulties, challenges and costs associated with managing and integrating new facilities, assets and employees) and the achievement of the anticipated benefits of such integration;
- the preceding and other factors discussed in Part I, 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 II, Item 7, "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 Annual Report on Form 10-K. 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 Annual Report on Form 10-K. 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.

PART I

Item 1. Business

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 platform 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 PenFed 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 price offers on actual vehicle inventory, which we refer to as VIN-based offers, from our network of TrueCar Certified Dealers. 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 16,500 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.

Further, our subsidiary, TCDS, provides our TrueCar Trade product, which gives consumers information on the value of their trade-in vehicles and enables them to obtain a guaranteed trade-in price before setting foot in the dealership. This valuation is, in turn, backed by a third-party guarantee to dealers that the vehicles will be repurchased at the indicated price if the dealer does not want to keep them.

Finally, our DealerScience subsidiary, through TCDS, provides dealers with advanced digital retailing software tools that allow them to calculate accurate monthly payments, expedite vehicle desking, which is the process of presenting and agreeing upon financial terms and financing options, and streamline the consumer's experience from shopping to showroom.

Products and Services

Consumer

Consumers interface with us through our TrueCar-branded website, affinity group marketing partner websites and TrueCar-branded and affinity group mobile applications.

The following are key elements of our consumer experience:

Research & Discovery. We provide information to consumers in the form of verified owner ratings and reviews, data-driven vehicle rankings, editorial content and in other formats that allow consumers to research, compare and discover the right vehicle based on their preferences.

New Car Build Experience. We provide an experience where consumers can enter their zip code and select their preferred make, model, trim and options, and then, in most instances, immediately see actual nearby cars that are generally consistent with their preferences. Also, in most instances, we present consumers with a graphical distribution of what others in the local market paid for a similar make, model and trim of car. Within this distribution, we include MSRP and the Market Average, a proprietary calculation based on recent transactions, that provides an understanding of what others have paid for similarly configured vehicles. This

information enables consumers to evaluate a potential price in the context of broader market data. When ready, consumers can proceed to register and connect with local Certified Dealers that can provide upfront, personalized price offers on in-stock inventory that is generally consistent with consumers' build preferences. Consumers are provided the option to connect with one or more local dealers in order to get the right deal on the car they want and proceed with purchase.

Used Car Inventory Search. We provide an experience where consumers can access and search an extensive selection of pre-owned vehicles for sale by Certified Dealers across the United States. Nearly every used listing has a price rating we compute based on similar used car listings in consumers' local area, so these consumers have market context. In addition, consumers can see vehicle information, photos and condition summaries, and choose to connect with a Certified Dealer to confirm availability, get an upfront offer and proceed with purchase.

VIN Offers. In most instances, when consumers choose to connect with a Certified Dealer, they will receive price offers from the dealer on in-stock vehicles with specified Vehicle Identification Numbers, or VINs. Each offer provides a comprehensive savings summary including MSRP, incentives, dealer discounts, total MSRP and a price rating so that consumers can know if they are getting a price that makes sense for them in the context of their market.

TrueCar Trade. If consumers intend to trade in a vehicle in connection with a car purchase, or sell their vehicle to a dealer, they can obtain a guaranteed price on the trade-in vehicle through our TrueCar Trade program. Dealers participating in the program benefit from a third-party guarantee of the price given to consumers by an affiliate of our partner Accu-Trade, allowing dealers to honor the trade-in price without assuming any risk.

Dealer

Our network of TrueCar Certified Dealers interfaces with our platform primarily through our Dealer Portal, an application that can be accessed online or using a mobile device. The Dealer Portal is considered a sales enhancement tool, and it enables dealers to access unique information on their prospects unavailable to them in their standard customer relationship management, or CRM, software. The Dealer Portal allows dealers to assess the competitiveness of their vehicle pricing relative to their market, create vehicle pricing rules, access details on potential buyers' wants and needs, create custom detailed offers based on vehicles in stock, manage how their dealership profile appears on the network and assess their competitive market performance on vehicles sold through their dealership, among a number of other administrative and management tools. With the mobile application for iOS and Android, dealers can also provide a price quote on a vehicle relative to the local market, regardless of whether the potential buyer was sourced through the TrueCar network or not.

Pricing tools. The Pricing Manager tool available on our Dealer Portal provides dealers with a single interface to assess the competitiveness of their vehicle pricing relative to their market and set pricing on all makes and models they offer for sale. The Sales Analyzer tool helps dealers better understand how their pricing for recently sold vehicles compares to the market, whether or not the customer transaction was with one of our users.

Sales closing tools. The Offer Tool helps dealers create custom detailed offers based on vehicles in stock. The Dealership Profile tool enables dealers to give customers information about their dealership, including salespersons' names and pictures, dealership makes, hours of operation and website and social media links.

DealerScience. We also offer dealers subscription-based digital retailing tools developed by our subsidiary DealerScience. The centerpiece of these tools is vehicle desking software that empowers a dealer's entire sales force to calculate penny-perfect monthly payments in seconds, thereby minimizing errors and reducing consumer wait time by eliminating a bottleneck in the traditional desking process. For a separate subscription fee, we also offer dealers a website plugin, or widget, that interfaces with our desking software, permitting consumers to view accurate lease and financing payments online. The widget is directly linked to the dealer's inventory and automatically includes up-to-date incentives and rates, permitting consumers to determine their own payments based on their budget. The interface between the widget and the desking software enables a consumer to obtain a code after customizing a payment that allows the dealer to pull up the relevant information instantly when the consumer arrives at the dealership. Our DealerScience products also include software that allows consumers to find vehicles they can afford by searching those within their budget, whether in the showroom or on the dealer's website, and software that automatically generates advertisements with current leasing and financing rates for particular vehicles in the dealer's inventory, helping to increase conversion rate on the advertisements by presenting only the best financial options for a given vehicle.

DealerSync. From 2017 until June 2019, we also acted as sales agent for DealerSync, in which capacity we offered independent dealers a subscription-based dealer management platform. Among other features, this platform included a website creation and management service, inventory management services, assistance with search engine optimization strategy and mobile device applications, permitting independent dealers to automate more of their tasks, increase traffic and close more sales.

Manufacturers

We enable manufacturers to target consumers based on membership in an affinity group and other criteria. Through our platform, manufacturers can create cash incentives targeted to specific consumers and provide the ability to generate a unique coupon code that can be redeemed and validated at any dealership across the country in connection with the purchase of a vehicle. By facilitating and tracking these incentive codes in their own reporting systems, manufacturers can account directly for this method of reaching consumers. These manufacturers pay a subscription or per-vehicle fee to us for this service.

Used car listings

For consumers looking to purchase a used car, we provide an aggregated listing of used vehicles for sale in their local area. These listings are consolidated from a variety of sources, including members of our network of TrueCar Certified Dealers that sell used cars. In addition to displaying stated information made available by the seller about the pricing and condition of a car, we provide consumers with information related to the value of other cars of the same make, model, year and stated condition in the market. Through our websites and mobile applications, the user can contact the dealer, identifying herself as a TrueCar user, to initiate communications that may ultimately result in a completed transaction.

ALG

We forecast data on residual values of cars and provide this information on a subscription and consultative basis through ALG, our wholly-owned subsidiary. Automotive manufacturers, lenders, lessors, dealers and software providers use information from ALG to determine the residual value of an automobile at given points in time in the future. These residual values are used to underwrite automotive loans and leases to determine payments by consumers. In addition, financial institutions use this information to measure exposure and risk across loan, lease and fleet portfolios.

Sales and Marketing

Consumer marketing

We reach consumers through the TrueCar website and the branded mobile applications and websites we maintain for our affinity group marketing partners. Our marketing is focused on building the TrueCar brand. The key tenets of our brand are providing transparent market price information and enhancing the car-buying experience for both consumers and dealers. We divide our marketing spend between traditional media sources, such as television and radio, and digital media. Our consumer brand awareness efforts are aided by the fact that we are quoted in various media outlets from time to time as a recognized industry authority on automotive retail and online data forecasting.

We also support initiatives for our affinity group marketing partners, including U.S. News & World Report, Consumer Reports, AAA, American Express and PenFed. These initiatives are designed to promote awareness of the organizations' car-buying programs among their memberships through a variety of media, including television, email, direct mail, website development, print, online advertising, Internet search engine marketing, Internet search engine optimization and social networking.

Dealer engagement and industry relations

Our dealer sales force is responsible for supporting our network of TrueCar Certified Dealers, optimizing our TrueCar Certified Dealer coverage across brands and geographies and for providing onboarding and dealer support. Our sales force helps dealers grow their businesses by regularly providing data-driven insights on inventory management and pricing.

Our ability to understand the needs of, actively listen to and collaborate with our network of TrueCar Certified Dealers is crucial to our success, and many of our dealer sales force employees have worked at dealerships or OEMs.

Competition

The automotive retail industry is highly competitive and fragmented. Consumers use a variety of online and offline sources to research vehicle information, obtain vehicle pricing information and identify dealers. In addition, dealers use a variety of marketing channels to promote themselves to consumers.

Competition for consumer awareness

We compete to attract consumers directly to our TrueCar.com website and mobile applications primarily on the basis of the quality of the consumer experience; the breadth, depth and accuracy of information; brand awareness; and reputation.

Our principal competitors for consumer awareness include:

- Internet search engines and online automotive sites such as Google, Amazon Vehicles, Autotrader.com, eBay Motors, AutoWeb.com (formerly Autobytel.com), Edmunds.com, KBB.com, CarSaver.com, CarGurus.com and Cars.com;
- sites operated by automobile manufacturers such as General Motors and Ford;
- providers of offline, membership-based car-buying services, such as the Costco Auto Program; and
- offline automotive classified listings, such as trade periodicals and local newspapers.

Competition for car dealer marketing spend

We compete for a share of car dealers' overall marketing expenditures within online and offline media marketing channels. We compete primarily on the basis of the transaction-readiness of our users; the efficiency of customer acquisition as compared to alternative methods; the accountability and measurability of our service; product features, analytics and tools; dealer support; and the size of our prospective car buyer audience. Other businesses also derive a majority of their revenue by offering consumer marketing services to dealers. These companies include listings, information, lead generation and car-buying services, and compete with us for dealer marketing spend.

Our principal competitors for car dealer marketing spend include:

- online automotive content publishers such as Edmunds.com and KBB.com selling impression-based display advertising, and online automotive classified listing sites such as Autotrader.com, CarGurus.com and Cars.com selling inventory-based subscription billing;
- lead generators such as AutoWeb.com selling pay-per-lead advertising;
- Internet sites such as Google and Facebook selling cost-per-click advertising; and
- offline media, including newspaper, outdoor advertising, radio, television and direct mail.

Technology

We have designed our technology platform, website and products to provide consumers, dealers and other parties with the information they need to effect a successful car purchase. Consumers access this platform through the TrueCar-branded website, affinity group marketing partner websites and TrueCar-branded and affinity group mobile applications. Dealers access the platform through the software tools available on our Dealer Portal. Supporting each of these user interfaces are advanced systems for processing and analyzing automotive data, including features such as vehicle configurators and predictive consumer behavior modeling, as well as our proprietary matching algorithm to compare our transaction-based data sources with our record of online users for processing and billing. We use a combination of open source and licensed software running on optimized hardware.

Substantially all of our data processing and storage capabilities are cloud-based and sufficiently redundant. We have adopted a centralized approach to quality assurance and testing for our technology platform and all products aimed at enhancing consumer and dealer experiences while seeking to optimize availability, scalability, security and performance.

Intellectual Property

We protect our intellectual property through a combination of patents, copyrights, trademarks, service marks, domain names, trade secret laws, confidentiality procedures and contractual restrictions.

At December 31, 2019, we had 54 U.S. issued patents, 26 pending U.S. patent applications, 8 issued foreign patents and 4 pending foreign patent applications. The issued and allowed patents begin expiring in 2029 through 2038. We intend to pursue additional patent protection to the extent we believe it would be beneficial to our competitive position.

We have a number of registered and unregistered trademarks. We registered "TrueCar," the TrueCar logo, various TRUE marks and other marks as trademarks in the United States and several other jurisdictions. We also have filed trademark applications for

ALG and others in the United States and other jurisdictions and will pursue additional trademark registrations to the extent we believe it would be beneficial to our competitive position.

In addition to the protection provided by our intellectual property rights, we enter into confidentiality and proprietary rights agreements with our employees, consultants, contractors and business partners. Our employees and contractors are also subject to invention assignment agreements. We further control the use of our proprietary technology and intellectual property through provisions in both our general and product-specific terms of use on our website.

Seasonality

Across the automotive industry, consumers tend to purchase a higher volume of cars in the second and third quarters of each year, due in part to the introduction of new vehicle models from manufacturers. As our business is substantially dependent on the volume of car purchases in the United States, this seasonal trend has affected our business.

Regulatory Matters

Various aspects of our business are or may be subject, directly or indirectly, to U.S. federal and state laws and regulations. In particular, the advertising and sale of new or used motor vehicles is highly regulated by the states in which we do business. Although we do not sell motor vehicles, the dealers from which we derive a significant portion of our revenues do sell motor vehicles. Moreover, state regulatory authorities or other third parties could take and, on some occasions, have taken the position that some of the regulations applicable to dealers or to the manner in which motor vehicles are advertised and sold generally are directly applicable to our business.

In May 2015, we were named as a defendant in a lawsuit filed by the California New Car Dealers Association, or CNCDA, in the California Superior Court for the County of Los Angeles, which we refer to as the CNCDA Litigation. The complaint sought declaratory and injunctive relief based on allegations that we were operating in the State of California as an unlicensed automobile dealer and autobroker. In December 2017, the parties entered into a binding settlement agreement to fully resolve the lawsuit, and the CNCDA Litigation was dismissed.

In July 2015, we were named as a defendant in a lawsuit filed in the California Superior Court for the County of Los Angeles by numerous dealers participating on the TrueCar platform, which we refer to as the Participating Dealer Litigation. The complaint, as subsequently amended, sought declaratory and injunctive relief based on allegations that we were engaging in unfairly competitive practices and were operating as an unlicensed automobile dealer and autobroker in contravention of various state laws. In September 2015, the plaintiffs voluntarily dismissed this lawsuit “without prejudice,” which means that the Participating Dealer Litigation is currently resolved, but that it could be re-filed at a later date.

In September 2015, we received a letter from the Texas Department of Motor Vehicles, which we refer to as the Texas DMV Notice, asserting that certain aspects of our advertising in Texas constituted false, deceptive, unfair or misleading advertising within the meaning of applicable Texas law. On September 24, 2015, we responded to the Texas DMV Notice in an effort to resolve the concerns raised by the Texas DMV Notice without making material, unfavorable adjustments to our business practices or user experience in Texas. In light of the fact that no further action has been taken with respect to this matter following our response to the Texas DMV Notice, we consider the issues raised by the Texas DMV Notice to be informally resolved, but we cannot assure you that this matter or similar matters will not reemerge in the future.

In December 2015, we were 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, which we refer to as the California Consumer Class Action. The complaint asserted claims for unjust enrichment, violation of the California Consumer Legal Remedies Act and violation of the California Business and Professions Code, based in part on allegations that we are operating in the State of California as an unlicensed automobile dealer and autobroker. After the trial and appellate courts rejected the plaintiff’s motion for class certification, he voluntarily dismissed his case, meaning that the California Consumer Class Action is resolved.

In July 2016, we received a letter from the Mississippi Motor Vehicle Commission, which we refer to as the Mississippi MVC Letter, asserting that an aspect of our advertising in Mississippi was not in compliance with a regulation adopted by the Mississippi Motor Vehicle Commission. On July 19, 2016 we responded to the Mississippi MVC Letter in an effort to resolve the concerns raised by the Mississippi MVC Letter without making material, unfavorable adjustments to our business practices or user experience in Mississippi. In light of the fact that no further action has been taken with respect to this matter following our response to the Mississippi MVC Letter, we consider the issues raised by the Mississippi MVC Letter to be informally resolved, but we cannot assure you that this matter or similar matters will not reemerge in the future.

In August 2016, we met with investigators from the California Department of Motor Vehicles, or the California DMV, regarding an allegation made by a dealer that we were operating as an unlicensed automobile auction in California, which we refer to

as the Unlicensed Auction Allegation. We provided the investigators with information about our business in an effort to resolve the concerns raised by the Unlicensed Auction Allegation. In October 2016, we were informally advised by an investigator for the California DMV that the concerns raised by the Unlicensed Auction Allegation had been resolved, but that the investigators will continue to evaluate our responses regarding certain matters related to the advertising of new motor vehicles. In light of the fact that no further action has been taken with respect to this matter, we consider the issues raised by the Unlicensed Auction Allegation to be informally resolved, but we cannot assure you that this matter or similar matters will not reemerge in the future.

In March 2017, we received an investigatory subpoena from the Consumer Protection Section of the Office of the Attorney General of the State of Ohio issued pursuant to the Ohio Consumer Sales Practices Act. The investigatory subpoena requested certain information about online content we displayed related to vehicles listed for sale by TrueCar Certified Dealers in Ohio. On April 18, 2017, we responded to the investigatory subpoena and supplied the information it sought. In light of the fact that no further action has been taken with respect to this matter subsequent to our response to the investigatory subpoena, we consider this matter to be resolved, but we cannot assure you that this matter or similar matters will not reemerge in the future.

In June 2017, we were named as a defendant in a putative class action filed by Kip Haas in the U.S. District Court for the Central District of California, which we refer to as the Federal Consumer Class Action. 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 November 2017, the parties entered into a binding settlement agreement, and the litigation was dismissed in December 2017.

In order to operate in this highly-regulated environment, we have developed our products and services with a view toward appropriately managing the risk that our regulatory compliance or the regulatory compliance of the dealers in our dealer network could be challenged. If, and to the extent that, our products and services fail to satisfy relevant regulatory requirements, our business or our TrueCar Certified Dealers could be subject to significant civil and criminal penalties, including fines, or the award of significant damages in class action or other civil litigation, as well as orders interfering with our ability to continue providing our products and services in certain states.

Given the regulatory environment in which we and our participating dealers operate, in designing our products and services, we have focused considerable attention on two areas of state regulation: state advertising regulations and state brokering or "bird-dogging" regulations. With respect to advertising, we believe that most of the content displayed on the websites we operate does not constitute advertising for the sale of new motor vehicles. Nevertheless, we endeavor to design the content such that it would comply insofar as practicable with state advertising regulations if and to the extent that the content is considered to be new vehicle sales advertising. With respect to state brokering or "bird-dogging" regulations, we have designed our products and services in a manner that aims to avoid the applicability of those regulations.

Our efforts to design products and services in a manner that appropriately manages the regulatory compliance risk for our business and our participating dealers are complicated by the fact that the related automotive sales and marketing laws vary from state to state, and even within a given state are frequently susceptible to multiple interpretations. These laws were generally developed decades before the emergence of the Internet, they are subject to significant revision or modification and the manner in which they should be applied to our business model is frequently open to question. As a practical matter, state automobile dealer associations often have considerable influence over the construction of these laws by the relevant state regulatory authorities. Accordingly, in addition to our dialogues with relevant state agencies, we interface on a regular basis with representatives from automobile dealer associations in order to take their views into account as we continually update our products and services. The specific manner in which we have designed our products and services in an effort to manage state regulatory compliance concerns for us and our network of TrueCar Certified Dealers is the result of extensive analysis, which has required the investment of substantial resources that we believe represents a valuable asset of our business. However, we cannot assure you that we will be able to successfully comply with current or future regulations to which our business may be subject.

Employees

At December 31, 2019, we had 709 full-time employees at locations in Santa Monica, Austin and Boston as well as field employees in other locations throughout the United States. We also engage a number of temporary employees and consultants to support our operations. None of our employees is represented by a labor union or subject to a collective bargaining agreement. We have not experienced any work stoppages, and we consider our relations with our employees to be good.

Corporate Information

We were incorporated in Delaware on February 25, 2005 under our then-corporate name Zag.com Inc. and began business operations in April 2005. We completed our initial public offering in May 2014 and our common stock is listed on the Nasdaq Global Select Market under the symbol "TRUE."

Available Information

Our Internet address is www.truecar.com. Our investor relations website is located at <http://ir.truecar.com>. We make our Securities and Exchange Commission (“SEC”) periodic reports (Forms 10-Q and Forms 10-K) and current reports (Forms 8-K), and amendments to these reports, available free of charge through our website as soon as reasonably practicable after they are filed electronically with the SEC. We may from time to time provide important disclosures to investors by posting them in the investor relations section of our website, as allowed by SEC rules.

The SEC maintains an Internet website at www.sec.gov that contains reports, proxy and information statements and other information regarding our company that we file electronically with the SEC.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this report, including our consolidated financial statements and related notes, and Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” before making an investment in our common stock. If any of the following risks is realized, our business, financial condition, operating results and prospects could be materially and adversely affected. In that event, the trading price of our common stock could decline and you could lose part or all of your investment. Additional risks and uncertainties not presently known to us or not believed by us to be material could also impact us.

Risks Related to Our Business and Industry

The growth of our business relies significantly on our ability to grow and optimize the geographic coverage of dealers in our network of TrueCar Certified Dealers and increase the representation of high-volume brands in our network such that we are able to increase the number of transactions between our users and TrueCar Certified Dealers, as well as our ability to manage dealer churn and increase dealer subscription rates. Failure to do so would limit our growth.

Some automotive brands consistently achieve higher than average sales volume per dealer. As a consequence, dealers representing those brands make a disproportionately greater contribution to our unit volume. Our ability to grow and to optimize the geographic coverage of dealers in our network of TrueCar Certified Dealers, increase the number of dealers representing high-volume brands and grow the overall number of dealers in our network is an important factor in growing our business.

As described elsewhere in this “Risk Factors” section, car dealerships have sometimes viewed our business in a negative light. Although we have taken steps intended to improve our relationships with, and our reputation among, car dealerships, including the commitments made in our pledge to dealers, there can be no assurance that our efforts will be successful. We may be unable to maintain or grow the number of car dealers in our network, in a geographically optimized manner or at all, or increase the proportion of dealers in our network representing high volume brands. For example, during the second half of 2015, we experienced both a decline in the proportion of high-volume dealers in our network and slowed quarter-over-quarter revenue growth. If we experience a similar decline in the future, it could have a material adverse effect on our business, growth, financial condition, results of operations and cash flows.

In addition, our ability to increase the number of TrueCar Certified Dealers in an optimized manner depends on strong relationships with other constituents, including car manufacturers and state dealership associations. From time to time, car manufacturers have communicated concerns about our business to dealers in our network. For example, many car manufacturers maintain guidelines that prohibit dealers from advertising a car at a price that is below an established floor, referred to as “minimum allowable advertised price,” or “MAAP,” guidelines. If a manufacturer takes the position that its MAAP guidelines apply to prices provided by a TrueCar Certified Dealer to our users and the dealer submits a price to a user that falls below the applicable MAAP guidelines, the manufacturer may discourage that dealer from remaining in the network and may discourage other dealers within its brand from joining the network. For example, in late 2011, Honda publicly announced that it would not provide advertising allowances to dealers that remained in our network of TrueCar Certified Dealers. While we subsequently addressed Honda’s concerns and it ceased withholding advertising allowances from our TrueCar Certified Dealers, discord with specific car manufacturers could impede our ability to grow our dealer network. Although an increasing number of manufacturers have begun introducing MAAP guidelines recently, and we have implemented certain changes designed to accommodate these guidelines, it is unclear whether we will continue to be able to do so without making material, unfavorable adjustments to our business practices or user experience and, if we are not, it could have a material adverse effect on our business, growth, financial condition, results of operations and cash flows.

In addition, state dealership associations maintain significant influence over the dealerships in their states as lobbying groups and as thought leaders. To the extent that these associations view us in a negative light, our reputation with car dealers in the corresponding states may be negatively affected. If our relationships with car manufacturers or state dealership associations suffer, our ability to maintain and grow the number of car dealers in our network would be harmed.

Further, in 2019, approximately 34% of our unit volume was subject to pay-per-sale billing arrangements, with the remaining units being subject to subscription billing arrangements. If the number of TrueCar Certified Dealers on subscription billing arrangements continues to increase relative to those on a pay-per-sale billing model, the growth of our business could become more dependent on our ability to increase dealer subscription rates, as rising unit volumes at dealers on subscription billing arrangements do not automatically result in higher revenues. If we are unable to convince subscription-based dealers of our value proposition, we could be unable to increase dealer subscription rates even if our unit volume increases, which could have a material adverse effect on our business, growth, financial condition, results of operations and cash flows.

We cannot assure you that we will expand our network of TrueCar Certified Dealers in a manner that provides a sufficient number of dealers by brand and geography for our unique visitors, or that we will be able to increase dealer subscription rates, and failure to do so would limit our growth.

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

Our primary source of revenue consists of fees paid by TrueCar Certified Dealers to us in connection with the sales of automobiles to our users. In addition, our value proposition to consumers depends on our ability to provide pricing information on

automobiles from a sufficient number of automobile dealers by brand and in a given consumer's geographic area. If our relationships with our network of TrueCar Certified Dealers suffer harm in a manner that leads to the departure of these dealers from our network, then our revenue and ability to maintain and grow unique visitor traffic would be adversely affected.

For example, at the end of 2011 and the beginning of 2012, due to certain regulatory and publicity-related challenges, many dealers canceled their agreements with us and our franchise dealer count fell from 5,571 at November 30, 2011 to 3,599 at February 28, 2012. In 2015, 279 franchise dealers became inactive as the result of a contractual dispute with a large dealer group, and our franchise dealer count decreased from 9,300 at June 30, 2015 to 8,702 at September 30, 2015. At December 31, 2019 our franchise dealer count was 12,565.

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

In addition, although the automobile dealership industry is fragmented, a small number of groups have significant influence over the industry, including state and national dealership associations, state regulators, car manufacturers, consumer groups, individual dealers and consolidated dealer groups. If any of these groups comes to believe that automobile dealerships should not do business with us, this belief could become quickly and widely shared by automobile dealerships and we could lose a significant number of dealers in our network. For example, in May 2015, the CNCDA filed a lawsuit alleging that we were operating in the State of California as an unlicensed automobile dealer and autobroker. Although this litigation was ultimately settled, we cannot assure you that similar litigation will not be brought against us in the future. For more information on this lawsuit, refer to the risk factor below: "*We face litigation and are party to legal proceedings that could have a material adverse effect on our business, financial condition, results of operations and cash flows.*" A significant number of automobile dealerships are also members of larger dealer groups, and if a group decides to leave our network, that decision would typically apply to all dealerships within the group.

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

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

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

The user experience on our TrueCar-branded website platform has evolved since its launch in 2010, but has not changed dramatically. We cannot assure you that we will be able to provide a compelling car-buying experience to our users. Our failure to do so could cause the number of transactions between our users and TrueCar Certified Dealers to decline and prevent us from effectively monetizing our user traffic. In addition, as described elsewhere in this "Risk Factors" section, if we are unable to provide a compelling car-buying experience to our users, the quality of the leads we provide to dealers could decline, which could result in dealers leaving our network.

We believe that our ability to provide a compelling car-buying experience is subject to a number of factors, including:

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

- our ability to constantly innovate and improve our existing products;
- compliance of the dealers within our network of TrueCar Certified Dealers with applicable laws, regulations and the rules of our platform;
- our access to a sufficient amount of data to enable us to provide relevant vehicle and pricing information to consumers; and
- our ability to constantly innovate and improve our mobile application and platform to enable us to provide products and services that users want to use on the devices they prefer.

If the quality or quantity of the leads we provide to TrueCar Certified Dealers declines, our unit volume could decrease and TrueCar Certified Dealers could lose faith in our value proposition and choose to leave our network or insist on lower subscription rates, which could reduce our revenue and harm our business.

Our Auto Buying Program introduces consumers to TrueCar Certified Dealers, who either pay us a subscription fee or pay us a fee per vehicle sold to our users introduced to them through our platform. The quality and quantity of these leads are important variables in the success of our business and depend on many factors, including the attractiveness of our car-buying experience, the efficiency of the algorithm that matches our users with TrueCar Certified Dealers and consumers' loyalty to our brand or to that of the partner through which they were introduced to the Auto Buying Program, among others. If our lead quality or quantity decline, our unit volume could decline, which could result in lower revenues from pay-per-sale billing arrangements, as well as an inability to convince TrueCar Certified Dealers that our value proposition justifies maintaining or increasing our subscription rates. Additionally, diminished lead quality or quantity could cause TrueCar Certified Dealers to be dissatisfied with our program, which could result in their choosing to leave our network or insist on lower subscription rates. Historically, some of our TrueCar Certified Dealers have expressed concern about our lead quality, and we observed an increase in this concern in the first half of 2019. Further, the wind-down and subsequent termination of our affinity partnership with USAA is likely to materially decrease our lead quantity and could adversely affect our aggregate lead quality. Negative developments in these metrics, like many others in the total value proposition that we provide to our TrueCar Certified Dealers, can adversely affect our revenues, results of operations and business.

The wind-down and termination of our partnership with the United Services Automobile Association, or USAA, is likely to adversely affect our business.

The largest source of user traffic and unit sales from our affinity group marketing partners in 2019 came from the site we maintain for USAA. In 2019, 293,142 units, representing 29% of all units purchased by users from TrueCar Certified Dealers during that period, were matched to users of the car-buying site we maintained for USAA (before responsibility for the partnership was transferred from USAA to its banking subsidiary, USAA Federal Savings Bank, or USAA FSB, in February 2020). As such, the number of units purchased using the USAA car-buying site has a significant influence on our operating results. We define units as the number of cars purchased from TrueCar Certified Dealers that are matched to users of the TrueCar website and our branded mobile applications or the car-buying sites we maintain for our affinity group marketing partners. USAA is also a large stockholder, and as of December 31, 2019, USAA beneficially owned 9,042,992 shares, which represented 8.4% of our outstanding common stock.

Our affinity group marketing agreement with USAA reached the end of its term on February 13, 2020, and in February 2020, USAA notified us that it intended to end our affinity partnership. Effective February 14, 2020, we entered into a transition services agreement with USAA pursuant to which it will continue offering its members an auto-buying program through September 30, 2020, after which there will be a subsequent 120-day wind-down period to permit us to continue to serve USAA members who already began the car-buying process through USAA FSB's auto-buying program up to then. Although the transition services agreement does not increase the revenue share amounts that we pay USAA FSB, and requires USAA FSB to pay us an aggregate transition services fee of \$20 million, the termination of our affinity partnership with USAA FSB is likely to have a material adverse effect on our business, revenue, operating results and prospects. Additionally, USAA FSB has terminated all paid advertising of its auto-buying program, which has negatively affected the traffic to our USAA channel, and USAA FSB has also informed us that it expects to implement site changes that make it clearer to its members that they are interacting with a third-party website operated by us. It is possible that those changes, which we expect to be implemented in the first quarter of 2020, and any future changes before or during the wind-down period, could further adversely affect the volume of user traffic we receive from USAA FSB.

The transition services agreement provides us with a seven and one-half month period to continue operating the auto-buying program for USAA FSB. We cannot assure you that we will be able to wind down our partnership with USAA FSB during

this period in a manner that minimizes disruption to our business and to our users. Further, we could be unable to effectively mitigate the long-term negative financial effect of the termination of that partnership. Additionally, while USAA FSB is required to use commercially reasonable efforts to support its auto-buying program in a manner materially consistent with the manner in which it did so before the transition, this obligation is subject to the parties' wind-down negotiations and to whether USAA determines that those efforts violate laws applicable to it or are contrary to instructions from its regulators. Changes in how USAA FSB supports our platform, subvenes its members' borrowing costs, mitigates banking or insurance regulatory risk or modifies its auto-buying site and its user experience could further adversely affect the volume of user traffic we receive from USAA FSB and the close rate of that traffic.

If we are unable to timely mitigate the adverse effects of the transition and eventual termination of our relationship with USAA FSB, our business, revenues, results of operations and cash flows could be materially negatively affected.

We have experienced significant turnover in our top executives, and our business could be adversely affected by these and other transitions in our senior management team or if any of the resulting vacancies cannot be filled with qualified replacements in a timely manner.

In the first half of 2019, we experienced significant turnover in our top executives, including the departures of our chief executive officer, chief technology officer and chief marketing officer and the replacement of our chief financial officer, chief people officer and executive vice president of dealer sales and services. As a result of this turnover, our remaining management team has taken on increased responsibilities, which could divert attention from key business areas, and several key management roles remain vacant.

Management transition is often difficult and inherently causes some loss of institutional knowledge, which could negatively affect our results of operations and financial condition. Our ability to execute our business strategies may be adversely affected by the uncertainty associated with these transitions and the time and attention from the board and management needed to fill the vacant roles could disrupt our business. If we are unable to successfully identify and attract adequate replacements for the vacancies in our management roles in a timely manner, including the role of chief executive officer, we could experience increased employee turnover and harm to our business, growth, financial conditions, results of operations and cash flows. We face significant competition for executives with the qualifications and experience we are seeking. The search for replacements for these positions has resulted, and is likely to continue to result, in significant recruiting and relocation costs, and we can give no assurances concerning the timing or outcome of our search for these replacements.

Further, we cannot guarantee that we will not face similar turnover in the future. Although we generally enter into employment agreements with our executives, the agreements have no specific duration and our executive officers are at-will employees. As a result, they may terminate their employment relationship with us at any time, and we cannot ensure that we will be able to retain the services of any of them. Our senior management's knowledge of our business and industry would be difficult to replace, and any further turnover could negatively affect our business, growth, financial conditions, results of operations and cash flows.

An inability to retain, attract and integrate qualified personnel could harm our ability to develop and successfully grow our business.

We believe our success has depended, and continues to depend, on the efforts and talents of our executives and employees. The loss of key personnel, including members of management as well as key engineering, product and technology employees who understand our business and can innovate our products, could have an adverse effect on our business. Additionally, our future success depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees, including our dealer, marketing, finance, accounting, legal and other personnel. Competition for qualified employees in our industry, particularly for software engineers, data scientists and other technical staff, is intense and we face significant competition in hiring and retaining them and difficulties in attracting them to move to the Los Angeles area, where our headquarters are located and the cost of living is high. In addition, we expect to face increasing competition for talented individuals with automotive or technology experience within Southern California as the "Silicon Beach" area of Los Angeles County continues to develop. Moreover, we have in the past conducted reductions in force to optimize our organizational structure and reduce costs, and certain senior personnel have also departed for various reasons. We are also limited in our ability to recruit internationally by domestic immigration laws.

To attract and retain executives and other key employees in this competitive marketplace, we must provide competitive compensation packages, including cash and stock-based compensation. Our primary forms of stock-based incentive awards are stock options and restricted stock units. Our stock price has recently experienced substantial volatility, which has negatively affected the value of our stock-based incentive awards and may impact the extent to which our stock-based compensation is

viewed as a valuable benefit. If we are not able to mitigate the impact of this volatility in our stock price, or if our total compensation packages are not considered competitive, our ability to attract, retain and motivate executives and key employees could be weakened. If we do not succeed in attracting well-qualified employees, retaining and motivating existing employees or integrating new employees, our business could be materially and adversely affected.

Our growth in prior years may not be indicative of our future growth, and we may not be able to manage future growth effectively.

Our revenue grew from \$38.1 million in 2010 to \$353.9 million in 2019. However, our rate of revenue growth declined from 2017 to 2019 and may continue to be lower than it has been in past periods. In addition, our future revenue growth is dependent on our ability to:

- expand our dealer network in a geographically optimized manner, including increasing dealers in our network representing high-volume brands;
- increase the number of transactions between our users and TrueCar Certified Dealers;
- increase dealer subscription rates, and manage dealer churn;
- grow the revenue we derive from car manufacturer incentive programs;
- increase the number of dealers participating in our automotive trade-in program and successfully monetize the TrueCar Trade product;
- maintain and grow our affinity group marketing partner relationships and increase the productivity of our current affinity group marketing partners;
- increase the number of users of our products and services, and in particular the number of unique visitors to the TrueCar website and our TrueCar-branded mobile applications, including by improving our search-engine optimization;
- further enhance our consumer experience and increase our close rates and the rate at which site visitors prospect with a TrueCar Certified Dealer;
- further improve the quality of our existing products and services, and introduce high-quality new products and services; and
- introduce third-party ancillary products and services, including by integrating acquired companies like DealerScience and their products and services into our business.

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

- marketing and advertising;
- dealer outreach and training;
- technology and product development, including the development of new products and new features for existing products;
- strategic partnerships, investments and acquisitions; and
- general administration, including legal, accounting and other compliance expenses related to being a public company.

In addition, our historical growth has placed and may continue to place significant demands on our management and our operational and financial resources. We have hired, and expect to continue hiring, additional personnel, particularly in our dealer, product and technology teams. The additional personnel in our dealer team are intended to enhance the service experience and the productivity of our dealer network while the additional personnel in our product and technology teams are focusing on developing new products and features enabled by the completion of the replatforming of our technology infrastructure in 2018 and delivering a better experience to consumers, dealers and affinity group marketing partners and car manufacturers that offer incentive programs through our platform. Finally, our organizational structure is becoming more complex as we continue to add additional staff, and

we will need to improve our operational, financial and management controls as well as our reporting systems and procedures. We will require significant capital expenditures and the allocation of valuable management resources to grow and change in these areas without undermining our corporate culture of rapid innovation, teamwork and attention to the car-buying experience for the consumer and the economics of the dealer.

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

We receive automobile purchase data from many third-party data providers, including our network of TrueCar Certified Dealers; dealer management system, or DMS, data feed providers; data aggregators and integrators; survey companies; purveyors of registration data; and our affinity group marketing partners. In the circumstances in which we employ a pay-per-sale billing model, we use this data to match purchases from TrueCar Certified Dealers so that we may collect transaction fees from those dealers and recognize revenue from the related transactions. Further, we use this data to demonstrate to TrueCar Certified Dealers on a subscription billing model the value we provide to support maintaining or increasing our subscription rates.

From time to time, we experience interruptions in one or more data feeds that we receive from third-party data providers, particularly DMS data feed providers, in a manner that affects our ability to timely invoice the dealers in our network. These interruptions may occur for a number of reasons, including changes to the software used by these data feed providers and difficulties in renewing our agreements with third-party data feed providers. In the circumstances in which we employ a pay-per-sale billing model, an interruption in the data feeds that we receive may affect our ability to match automobile purchases made by our users from TrueCar Certified Dealers, thereby delaying our submission of an invoice to an automobile dealer in our network for a given transaction and delaying the timing of cash receipts from the dealer, and in circumstances in which we employ a subscription billing model, an interruption in the data feeds that we receive may affect our ability to justify maintaining or increasing our subscription rates.

The redundancies of data feeds received from multiple providers may not result in sufficient data to match automobile purchases made by our users from TrueCar Certified Dealers. In the case of an interruption in our data feeds, our billing structure may transition to a subscription model for affected automobile dealers in our network until the interruption ceases. However, our subscription billing model may result in lower revenues during an interruption and, when an interruption ceases, we are not always able to retroactively match a transaction and collect a fee. In addition, our likelihood of collecting the fee owed to us for a given transaction decreases for those periods in which we are unable to submit an invoice to automobile dealers. Interruptions that occur in close proximity to the end of a given reporting period could result in delays in our ability to recognize those transaction revenues in that reporting period and these shortfalls in transaction revenue could be material to our operating results.

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

We have not been profitable since inception. We had an accumulated deficit of \$432.1 million at December 31, 2019 and we experienced a net loss of \$54.9 million in 2019. From time to time in the past, we have made significant investments in our operations that have not resulted in corresponding revenue growth and, as a result, increased our losses. We continue to make significant investments to support the further development and expansion of our business and these investments may not result in increased revenue or growth on a timely basis or at all. Our revenue growth has been highly influenced by marketing expenditures. Incremental marketing expenditures in certain situations do not result in sufficient incremental revenue to cover their cost. This limits the growth in revenue that can be achieved through marketing expenditures. In addition, as a public company, we have incurred, and will continue to incur, significant legal, accounting and other expenses.

We may incur significant losses in the future for a number of reasons, including slowing demand for our products and services, increasing competition, weakness in the automobile industry generally and other risks described in this report, and we may encounter unforeseen expenses, difficulties, complications and delays and other unknown factors. If we incur losses in the future, we may not be able to reduce costs effectively because many of our costs are fixed. In addition, if we reduce variable costs to respond to losses, this may affect our ability to acquire users and dealers, improve our products and services and grow our revenues. Accordingly, we may not be able to achieve or maintain profitability and we may continue to incur significant losses in the future, and this could seriously harm our business and cause the price of our common stock to decline.

We cannot predict whether we will be able to maintain or grow our business. If we are unable to successfully respond to changes in the market, our business could be harmed.

Our business has grown as users and automobile dealers have increasingly used our products and services. However, we cannot guarantee that we will be able to maintain or grow our business. We expect that our business will evolve in ways that may be difficult to predict. For example, marketing expenditures in certain situations become inefficient, particularly with respect to the TrueCar website and our branded mobile applications. Continued revenue growth will require more focus on increasing the number of transactions, subscriptions and other sources from which we derive revenue by growing our network of TrueCar Certified Dealers, including dealers representing high-volume brands, both on an overall basis and in important geographies, as well as growth in the revenue we derive from car manufacturer incentive programs. It is also possible that car dealers could broadly determine that they no longer believe in the value of our services. In the event of these or any other developments, our continued success will depend on our ability to successfully adjust our strategy to meet the changing market dynamics. If we are unable to do so, our business could be harmed and our results of operations and financial condition could be materially and adversely affected.

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

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

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

For example, in February 2020, USAA notified us that it intended to end our affinity partnership, and we entered into a transition services agreement with USAA pursuant to which it will cease offering its members an automobile buying program effective October 1, 2020. USAA accounted for a material amount of our units and revenues and this termination is likely to have a materially adverse effect on our business, operating results and prospects. For more information on the wind-down and termination of our affinity partnership with USAA, refer to the risk factor above: *“The wind-down and termination of our partnership with the United Services Automobile Association, or USAA, is likely to adversely affect our business.”*

Additional such changes to our relationships with our affinity group marketing partners could happen for a number of reasons both within and outside of our control. For example, we share certain information of our users with our affinity partners, and those partners may in turn use that information to offer enhanced value propositions to our users, such as OEM incentives or other benefits provided by third parties that we refer to as buyer’s bonuses, or for analytical or other business purposes. Affinity partners who derive value from that information may terminate their relationship with us, or change the relationship in a manner adverse to our business, if we cease or limit our sharing of the information, and we cannot assure you that we will not be required to do so due to market conditions or contractual counterparties, or by law or regulators given the rapidly evolving environment surrounding privacy matters in the United States. For more information on these matters, refer to the risk factor below: *“We collect, process, store, share, disclose and use personal information and other data, and our actual or perceived failure to protect this information and data could damage our reputation and brand and harm our business and operating results.”*

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

The failure to attract manufacturers to participate in our car manufacturer incentive programs, or to induce manufacturers to remain participants in those programs, could reduce our growth or have an adverse effect on our operating results.

In 2019 and 2018, respectively, we derived approximately 4.7% and 8.5% of our revenue from our arrangements with car manufacturers to promote the sale of their vehicles through additional consumer incentives, and we believe that this revenue stream represents a substantial growth opportunity for our business. Failure to attract additional manufacturers to participate in these programs could reduce our growth and harm our operating results. Additionally, our relationships with manufacturers typically begin with a short-term pilot arrangement and, even if a relationship progresses beyond the pilot stage, it may only be for a short term and may not be renewed by the manufacturer, which could cause fluctuations in our operating results. If we are unable to induce the manufacturers with which we currently have relationships to continue or expand their incentive programs on our platform, or to enter into longer-term arrangements, or if we are unable to attract new manufacturers to our platform, that could have an adverse effect on our business, revenue, operating results and prospects.

If we are not successful in increasing the number of dealers participating in our automotive trade-in program, providing a compelling value proposition to consumers using our TrueCar Trade product, monetizing that product or integrating it into our consumer experience, our business and prospects could be adversely affected.

We believe that our TrueCar Trade product is a vital element of our effort to build out an end-to-end consumer experience, and we entered into a 10-year commercial partnership with Accu-Trade in 2019. Accu-Trade, through its affiliates, supplies the valuation data we use in providing offers and guarantees those offers to dealers. We cannot assure you that Accu-Trade will continue to be able to supply accurate valuation data and to stand behind its guarantees. If it is unable to do so, our TrueCar Trade product, and our business and prospects, could be adversely affected.

Further, the TrueCar Trade product is a relatively new offering. If we are not able to increase the number of dealers who offer the TrueCar Trade product, provide a compelling value proposition to consumers who use the product, successfully monetize it or integrate it into our consumer experience, that failure would negatively impact our business, revenue, operating results and prospects.

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

We believe that the TrueCar website and our TrueCar-branded mobile applications are an important component of the growth of our business. Because TrueCar.com is a consumer brand, we rely heavily on marketing and advertising to increase the visibility of this brand with potential users of our products and services. We currently advertise through television and radio marketing campaigns, digital and online media, sponsorship programs and other means, the goals of which are to increase the strength and recognition of, and trust in, the TrueCar brand and to drive more unique visitors to our website and mobile applications, and we expect to continue to advertise in support of our rebranding initiative. For more information on this initiative, see the risk factor below: *“If consumers and dealers do not accept our new branding, our financial performance and our ability to grow unique visitor traffic and expand our dealer network could be negatively affected.”* We incurred expenses of \$229.3 million on sales and marketing during 2019.

Our business model relies on our ability to continue to scale rapidly and to decrease incremental user acquisition costs as we grow. Our revenue growth has been highly influenced by marketing expenditures. In part because of our reliance on a subscription-based billing model, incremental marketing expenditures may not result in sufficient revenue to permit recovery of incremental user acquisition costs through revenue growth. This limits the growth in revenue that can be achieved through marketing expenditures. If we are unable to recover our marketing costs through increases in user traffic and in the number of transactions by users of our platform, it could have a material adverse effect on our growth, results of operations and financial condition.

Additionally, if we discontinue our broad marketing campaigns or elect to reduce our sales and marketing costs to decrease our losses, for example, in connection with the wind-down of our partnership with USAA, this may affect our ability to acquire consumers and dealers and grow our revenues. Our current and potential competitors may also have significantly more financial, marketing and other resources than we have and the ability to devote greater resources to the promotion and support of their products and services. The realities of competing for users and brand visibility, as well as ensuring the satisfaction of our dealers, may limit our ability to reduce our own marketing expenditures, potentially negatively impacting our operating margins and financial results.

In addition, the number of transactions generated by the members of our affinity group marketing partners depends in part on the emphasis that these affinity group marketing partners place on marketing the purchase of cars within their platforms. For example, USAA is a large diversified financial services group of companies serving the United States military community with hundreds of highly competitive product and service offerings. Changes in how USAA FSB promotes and markets the car-buying site we maintain for it can affect, and have from time to time in the past affected, the volume of purchases generated by USAA members. For example, in the past USAA adjusted the location and prominence of the links to our platform on its web pages, which we believe adversely affected the volume of traffic to our platform, and USAA recently discontinued paid advertising of our platform, which adversely affected the volume of traffic to the platform. Should one or more of our affinity group marketing partners decide to deemphasize the marketing of our platform, or if their marketing efforts are otherwise unsuccessful, our revenue, business and financial results will be harmed.

Failure to increase our revenue, or to reduce our expenses as a percentage of revenue, would adversely affect our financial condition and profitability.

We expect to make significant future investments to support the further development and expansion of our business and these investments may not result in increased revenue or growth on a timely basis or at all, and may not be sufficient to replace the revenue that we have historically derived from our partnership with USAA during or after its wind down. Furthermore, these investments may not decrease as a percentage of revenue if our business grows. In particular, we intend to increase expenditures to acquire or develop and launch new products and enhance our existing products and services, continue to grow and train our network of TrueCar Certified Dealers and continue to upgrade and enhance our technology infrastructure. We also intend to continue investing to increase awareness of our brand, including through television, digital and radio advertisements. There can be no assurance that these investments will increase revenue or that we will eventually be able to decrease our expenses as a percentage of revenue, and failure to do so would adversely affect our financial condition and profitability.

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

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

State Motor Vehicle Sales, Advertising and Brokering Laws

The advertising and sale of new or used motor vehicles is highly regulated by the states in which we do business. Although we do not sell motor vehicles, state regulatory authorities or third parties could take the position that some of the regulations applicable to dealers or to the manner in which motor vehicles are advertised and sold generally are directly applicable to our business. If our products or services are determined not to comply with relevant regulatory requirements, we or our TrueCar Certified Dealers could be subject to significant civil and criminal penalties, including fines, or the award of significant damages in class action or other civil litigation, as well as orders interfering with our ability to continue providing our products and services in certain states. In addition, even without a determination that our products or services do not comply with relevant regulatory requirements, if dealers are uncertain about the applicability of those laws and regulations to our business, we may lose, or have difficulty increasing the number of, TrueCar Certified Dealers in our network, which would adversely affect our future growth.

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

In addition to generally applicable consumer protection laws, many states in which we do business have laws and regulations that specifically regulate the advertising for sale of new or used motor vehicles. These state advertising laws and regulations are frequently subject to multiple interpretations and are not uniform from state to state, sometimes imposing inconsistent requirements on the advertiser of a new or used motor vehicle. If the content displayed on the websites we operate is determined or alleged to be inaccurate or misleading, under motor vehicle advertising laws, generally applicable consumer protection laws or otherwise, we could be subject to significant civil and criminal penalties, including fines, or the award of

significant damages in class action or other civil litigation. Moreover, allegations like these, even if unfounded or decided in our favor, could be extremely costly to defend, could require us to pay significant sums in settlements and could interfere with our ability to continue providing our products and services in certain states.

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

In May 2015, we were named as a defendant in the CNCDA Litigation. The complaint sought declaratory and injunctive relief based on allegations that we were operating in the State of California as an unlicensed automobile dealer and autobroker. In December 2017, the parties entered into a binding settlement agreement to fully resolve the lawsuit, and the litigation was dismissed.

In July 2015, we were named as a defendant in the Participating Dealer Litigation. The complaint, as subsequently amended, sought declaratory and injunctive relief based on allegations that we were engaging in unfairly competitive practices and were operating as an unlicensed automobile dealer and autobroker in contravention of various state laws. In September 2015, the plaintiffs voluntarily dismissed this lawsuit “without prejudice,” which means that the Participating Dealer Litigation is currently resolved, but that it could be re-filed at a later date.

In September 2015, we received the Texas DMV Notice, asserting that certain aspects of our advertising in Texas constituted false, deceptive, unfair or misleading advertising within the meaning of applicable Texas law. On September 24, 2015, we responded to the Texas DMV Notice in an effort to resolve the concerns raised by the Texas DMV Notice without making material, unfavorable adjustments to our business practices or user experience in Texas. In light of the fact that no further action has been taken with respect to this matter following our response to the Texas DMV Notice, we consider the issues raised by the Texas DMV Notice to be informally resolved, but we cannot assure you that this matter or similar matters will not reemerge in the future.

In December 2015, we were named as a defendant in the California Consumer Class Action. The complaint asserted claims for unjust enrichment, violation of the California Consumer Legal Remedies Act and violation of the California Business and Professions Code, based in part on allegations that we are operating in the State of California as an unlicensed automobile dealer and autobroker. After the trial and appellate courts rejected the plaintiff’s motion for class certification, he voluntarily dismissed the remainder of his case, meaning that the California Consumer Class Action is currently resolved.

In July 2016, we received the Mississippi MVC Letter, asserting that an aspect of our advertising in Mississippi was not in compliance with a regulation adopted by the Mississippi Motor Vehicle Commission. On July 19, 2016 we responded to the Mississippi MVC Letter in an effort to resolve the concerns raised by the Mississippi MVC Letter without making material, unfavorable adjustments to our business practices or user experience in Mississippi. In light of the fact that no further action has been taken with respect to this matter following our response to the Mississippi MVC Letter, we consider the issues raised by the Mississippi MVC Letter to be informally resolved, but we cannot assure you that this matter or similar matters will not reemerge in the future.

In August 2016, we met with investigators from the California DMV regarding the Unlicensed Auction Allegation. We provided the investigators with information about our business in an effort to resolve the concerns raised by the Unlicensed Auction Allegation. In October 2016, we were informally advised by an investigator for the California DMV that the concerns raised by the Unlicensed Auction Allegation had been resolved, but that the investigators will continue to evaluate our responses regarding certain matters related to the advertising of new motor vehicles. In light of the fact that no further action has been taken with respect to this matter, we consider the issues raised by the Unlicensed Auction Allegation to be informally resolved, but we cannot assure you that this matter or similar matters will not reemerge in the future.

In March 2017, we received an investigatory subpoena from the Consumer Protection Section of the Office of the Attorney General of the State of Ohio issued pursuant to the Ohio Consumer Sales Practices Act. The investigatory subpoena

requested certain information about online content we displayed related to vehicles listed for sale by TrueCar Certified Dealers in Ohio. On April 18, 2017, we responded to the investigatory subpoena and supplied the information it sought. In light of the fact that no further action has been taken with respect to this matter subsequent to our response to the investigatory subpoena, we consider this matter to be resolved, but we cannot assure you that this matter or similar matters will not reemerge in the future.

In June 2017, we were named as a defendant in the Federal Consumer Class Action. 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 November 2017, the parties entered into a binding settlement agreement, and the litigation was dismissed in December 2017.

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

Federal Advertising Regulations

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

In March 2015, we were named as a defendant in a lawsuit purportedly filed on behalf of numerous automotive dealers who are not on the TrueCar platform in the U.S. District Court for the Southern District of New York, which we refer to as the NY Lanham Act Litigation. The complaint sought injunctive relief in addition to over \$250 million in damages based on allegations that we violated the Lanham Act as well as various state laws prohibiting unfair competition and deceptive acts or practices related to our advertising and promotional activities. In July 2019, the court granted the Company's motion for summary judgment as to the plaintiffs' Lanham Act claim and, in light of the dismissal of the plaintiffs' sole federal claim, the court declined to exercise supplemental jurisdiction over their state-law claims and therefore dismissed them without prejudice. For more information concerning this litigation, refer to the risk factor below: "*We face litigation and are party to legal proceedings that could have a material adverse effect on our business, financial condition, results of operations and cash flows.*"

Federal Antitrust Laws

The antitrust laws prohibit, among other things, any joint conduct among competitors that would lessen competition in the marketplace. Some of the information that we obtain from dealers is competitively sensitive and, if disclosed inappropriately, could potentially be used by dealers to impede competition or otherwise diminish independent pricing activity. A governmental or private civil action alleging the improper exchange of information, or unlawful participation in price maintenance or other unlawful or anticompetitive activity, even if unfounded, could be costly to defend and adversely impact our ability to maintain and grow our dealer network.

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

Federal and State Privacy Laws

We are subject to a variety of federal and state laws and regulations that relate to privacy, data protection and personal information, which in some cases can be enforced by private parties in addition to government entities, are constantly evolving and can be subject to significant change. As a result, the application, interpretation and enforcement of these laws and regulations are often uncertain, and may be interpreted and applied inconsistently from jurisdiction to jurisdiction and inconsistently with our current practices and policies. For example, legislative or regulatory actions affecting the manner in which we display content to our users, use or share information or obtain consent to use or share information could adversely affect the manner in which we provide our services or adversely affect our financial results. For more information concerning these and other similar potential

actions, refer to the risk factor below: “We collect, process, store, share, disclose and use personal information and other data, and our actual or perceived failure to protect this information and data could damage our reputation and brand and harm our business and operating results.”

Other

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

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

Stockholder Litigation

Milbeck Federal Securities Litigation

In March 2018, Leon Milbeck filed a putative securities class action complaint against us in the U.S. District Court for the Central District of California, which we refer to as the Milbeck Federal Securities Litigation. On June 27, 2018, the court appointed the Oklahoma Police Pension and Retirement Fund as lead plaintiff, who filed an amended complaint on August 24, 2018. The amended 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, and that the defendants made actionable misstatements in violation of Section 11 of the Securities Act in connection with our secondary offering that occurred during the class period. The amended complaint named us, certain of our then-current and former officers and directors and the underwriters for our secondary offering as defendants. On October 31, 2018, the lead 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, we filed a motion to dismiss the amended complaint, which the court denied on February 5, 2019. On May 9, 2019, the court granted the lead plaintiff’s motion for class certification. On August 2, 2019, the parties entered into an agreement to settle the Milbeck Federal Securities Litigation on a class-wide basis for \$28.25 million, all of which will be paid by our directors’ and officers’ liability insurance. On October 15, 2019, the court granted preliminary approval of the proposed settlement, and on January 27, 2020, the court issued a minute order granting final approval to the settlement. As a result, the Milbeck Federal Securities Litigation is currently resolved and we do not anticipate a loss related to this matter, because the settlement was covered by our directors’ and officers’ liability insurance. However, if similar litigation is filed against us, we may incur significant legal fees, settlements or damages awards. If any such matter is not ultimately resolved in our favor, losses arising from the results of litigation or settlements, as well as ongoing defense costs or adverse changes in our dealer network, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

California Derivative Litigation

On March 6, 2019, Dean Drulias filed a derivative action complaint nominally on our behalf in the U.S. District Court for the Central District of California, which we refer to as the California Derivative Litigation, naming us, certain of our then-current and former officers and directors and USAA as defendants. On March 12, 2019, the plaintiff filed an amended complaint, which alleged breach of fiduciary duties, unjust enrichment and violation of Section 10(b) and Section 29(b) of the Exchange Act and sought contribution for damages awarded against us in the Milbeck Federal Securities Litigation and an award of unspecified damages, interest, attorney’s fees and equitable relief based on substantially the same factual allegations as the Milbeck Federal Securities Litigation. On May 13, 2019, we filed motions to dismiss the amended complaint on the grounds of *forum non conveniens* based upon the exclusive forum provision of our charter, failure to make a pre-suit demand on our board of directors and failure to state a claim upon which relief may be granted. On October 23, 2019, the court granted our motion to dismiss the state-law claims with prejudice on the grounds of *forum non conveniens* and granted our motion to dismiss the federal-law claims without prejudice for failure to state a claim. In light of these rulings, the court declined to address our motion to dismiss for failure to show pre-suit demand futility. The court permitted the plaintiff to amend his complaint with respect to the dismissed federal-law claims, but on November 5, 2019, he informed the court that he declined to do so and stated his intent to appeal the court’s ruling.

On November 18, 2019, the court entered judgment in favor of the defendants and against the plaintiff, and on December 13, 2019, the plaintiff appealed that judgment. We believe that the appeal is without merit, and intend to vigorously defend ourselves in this matter. Based on the current stage of the proceedings in this case, the outcome of this legal proceeding, including the anticipated legal defense costs, remains uncertain; however, we may incur significant legal fees, settlements or damages awards resulting from this or other civil litigation. If this matter is not resolved in our favor, losses arising from the results of litigation or settlements, as well as ongoing defense costs, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Delaware Consolidated Derivative Litigation

In August 2019, three purported stockholder derivative actions were filed in Delaware alleging a variety of claims nominally on our behalf arising out of alleged breaches of fiduciary duty under Delaware law based upon substantially the same factual allegations as the Milbeck Federal Securities Litigation. The complaints named us, certain of our then-current and former directors and officers, USAA and, in one of the actions, certain of entities affiliated with USAA and certain of our current and former directors as defendants. On October 7, 2019, the Delaware Court of Chancery consolidated the cases into a single action in that court bearing the caption *In re TrueCar, Inc. Stockholder Derivative Litigation*, which we refer to as the Delaware Consolidated Derivative Litigation. On November 6, 2019, the plaintiffs filed a consolidated complaint against all of the defendants named in the prior actions, asserting claims for breach of fiduciary duty, unjust enrichment, contribution and indemnification against our current and former officers and directors, and claims for aiding and abetting breaches of fiduciary duty against the entities affiliated with USAA and with our current and former directors. The plaintiffs seek an award of damages against the defendants on our behalf and various alleged corporate governance reforms. On December 19, 2019, we filed motions to dismiss for failure to make a pre-suit demand and failure to state a claim. We believe that the consolidated complaint is without merit, and intend to vigorously defend ourselves in this matter. Based on the current stage of the proceedings in this case, the outcome of this legal proceeding, including the anticipated legal defense costs, remains uncertain; however, we may incur significant legal fees, settlements or damages awards resulting from this or other civil litigation. If this matter is not resolved in our favor, losses arising from the results of litigation or settlements, as well as ongoing defense costs, could have a material adverse effect on our business, financial condition, results of operations and cash flow.

Lee Derivative Litigation

In December 2019, Sulgi Lee, a purported stockholder, filed a derivative action in the Delaware Court of Chancery alleging a variety of claims nominally on our behalf arising out of alleged breaches of fiduciary duty under Delaware law based upon substantially the same factual allegations as the Milbeck Federal Securities Litigation. The complaint named us, certain of our then-current and former directors and officers and USAA as defendants. The plaintiff seeks an award of damages against the defendants on our behalf and various alleged corporate governance reforms. Based on the current stage of the proceedings in this case, the outcome of this legal proceeding, including the anticipated legal defense costs, remains uncertain; however, we may incur significant legal fees, settlements or damages awards resulting from this or other civil litigation. If this matter is not resolved in our favor, losses arising from the results of litigation or settlements, as well as ongoing defense costs, could have a material adverse effect on our business, financial condition, results of operations and cash flow.

Delaware Federal Derivative Litigation

In April 2019, each of Ara Afarian and Shelley Niemi filed a derivative action complaint nominally on our behalf in the U.S. District Court for the District of Delaware naming us, certain of our then-current and former directors and officers and USAA as defendants. Each complaint alleged breach of Section 29(b) of the Exchange Act as well as breach of fiduciary duties and unjust enrichment and sought contribution for damages awarded against us in the Milbeck Federal Securities Litigation and an award of unspecified damages, interest, attorney's fees and equitable relief based on substantially the same factual allegations as the Milbeck Federal Securities Litigation. The Niemi complaint also sought rescission of certain contracts. On April 17, 2019, the cases were consolidated into a single action bearing the caption *In re TrueCar, Inc. Shareholder Derivative Litigation*, which, together with the California Derivative Litigation and the Delaware Chancery Derivative Litigation, we refer to as the Derivative Litigation. On September 4, 2019, the court granted the plaintiffs' unopposed motion to voluntarily dismiss the litigation without prejudice, meaning it could be re-filed at a later date. As a result, the litigation is currently resolved and we do not anticipate a loss related to this matter. However, if similar litigation is filed against us, we may incur significant legal fees, settlements or damages awards. If any such matter is not ultimately resolved in our favor, losses arising from the results of litigation or settlements, as well as ongoing defense costs, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The Lanham Act Litigation

In March 2015, we were named as a defendant in the NY Lanham Act Litigation. The complaint in the NY Lanham Act Litigation, purportedly filed on behalf of numerous automotive dealers who are not on the TrueCar platform, alleged that we violated the Lanham Act as well as various state laws prohibiting unfair competition and deceptive acts or practices related to our advertising and promotional activities. The complaint sought 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, we filed an answer to the complaint. Thereafter, the plaintiffs amended their complaint, and on July 13, 2015, we filed a motion to dismiss the amended complaint. On January 6, 2016, the court granted in part and denied in part our motion to dismiss. On July 2, 2018, we filed a motion for summary judgment seeking dismissal of the amended complaint in its entirety. On March 27, 2019, the court granted in part and denied in part our motion, allowing the plaintiffs to pursue disgorgement of our profits on a deterrence theory but granting summary judgment to us on the other aspects of the plaintiffs' claims. On April 9, 2019, we filed a motion for reconsideration of the court's ruling, which the court granted on July 12, 2019. As a result, the court granted our motion for summary judgment in its entirety as to the plaintiffs' Lanham Act claim. In light of the dismissal of the plaintiffs' sole federal claim, the court declined to exercise supplemental jurisdiction over the state-law claims alleged by the amended complaint and therefore dismissed them without prejudice, meaning that the state-law claims could be re-filed in state court at a later date. The plaintiffs did not appeal the dismissal of their claims, and the deadline for doing so passed in August 2019, so the NY Lanham Act Litigation is currently resolved and we do not anticipate a loss related to this matter. However, if the plaintiffs re-file their state-law claims in state court or if similar litigation is filed against us, we may incur significant legal fees, adverse changes in our dealer network, settlements or damages awards. If any such matter is not ultimately resolved in our favor, losses arising from the results of litigation or settlements, as well as ongoing defense costs or adverse changes in our dealer network, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The California Consumer Class Action

In December 2015, we were named as a defendant in the California Consumer Class Action. The complaint asserted claims for unjust enrichment, violation of the California Consumer Legal Remedies Act and violation of the California Business and Professions Code, based principally on factual allegations similar to those asserted in the NY Lanham Act Litigation and the CNCDA Litigation. In the complaint, the plaintiff sought to represent a class of "[a]ll California consumers who purchased an automobile by using TrueCar, Inc.'s price certificate during the applicable statute of limitations." 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 retained the same proposed class definition as the initial complaint. Like the initial complaint, the amended complaint sought an award of unspecified damages, punitive and exemplary damages, interest, disgorgement, injunctive relief and attorney's fees. On September 12, 2016, we filed a demurrer to the amended complaint, which the court granted in part and denied in part on October 13, 2016, dismissing the unjust enrichment claim but declining to dismiss the balance of the claims at the demurrer stage of the litigation. On February 7, 2018, the plaintiff filed a motion for class certification, which the court denied on July 27, 2018. On September 26, 2018, the plaintiff appealed the trial court's denial of his motion for class certification, which the California Court of Appeal affirmed on December 16, 2019. On February 19, 2020, the plaintiff voluntarily dismissed the California Consumer Class Action. As a result, the California Consumer Class Action is currently resolved and we do not anticipate a loss related to this matter. However, if similar litigation is filed against us, we may incur significant legal fees, settlements or damages awards. If any such matter is not ultimately resolved in our favor, losses arising from the results of litigation or settlements, as well as ongoing defense costs or adverse changes in our dealer network, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

As a public company, we face the risk of shareholder lawsuits, particularly if we experience declines in the price of our common stock. In the past, following periods of volatility in the overall market and the market prices of a particular company's securities, securities class action lawsuits have often been instituted against affected companies, and as noted immediately above, this type of lawsuit has been instituted against us in the form of the Milbeck Federal Securities Litigation and the Derivative Litigation, among others. Additional lawsuits of this type or similar types, if instituted against us or one or more of our officers or directors, whether arising from alleged facts the same as, similar to or different from those alleged in the Milbeck Federal Securities Litigation or the Derivative Litigation, could result in significant legal fees, settlements or damage awards, as well as the diversion of our management's attention and resources, and thus could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We have incurred significant legal fees in our defense of certain of the matters referred to above and we may incur additional fees and other liabilities in connection with those matters that are still pending and any additional lawsuits that may be filed against us or one or more of our officers or directors hereafter. Our insurance policies may not provide sufficient coverage to adequately mitigate the legal fees and potential liabilities arising from these matters and, even where fees and liabilities are covered

by those policies, we may be unable to fully collect the insurance proceeds in a timely manner or at all. As a result, these fees and other liabilities could have a material adverse effect on our financial condition, results of operations and cash flows.

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

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

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

- Internet search engines and online automotive sites such as Google, Amazon Vehicles, Autotrader.com, eBay Motors, AutoWeb.com (formerly Autobytel.com), Edmunds.com, KBB.com, CarSaver.com, CarGurus.com and Cars.com;
- sites operated by automobile manufacturers such as General Motors and Ford;
- providers of offline, membership-based car-buying services such as the Costco Auto Program; and
- offline automotive classified listings, such as trade periodicals and local newspapers.

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

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

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

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

In addition, if one or more of our competitors were to merge or partner with another of our competitors, the change in the competitive landscape could adversely affect our ability to compete effectively. Our competitors may also establish or strengthen cooperative relationships with our current or future third-party data providers, technology partners or other parties with whom we have relationships, thereby limiting our ability to develop, improve and promote our solutions. We may not be able to compete successfully against current or future competitors, and competitive pressures may harm our revenue, business and financial results.

We may acquire or invest in other businesses, products or technologies, which could divert our management's attention, result in additional dilution to our stockholders and otherwise disrupt our operations and harm our operating results, and we may not be able to successfully or efficiently integrate our acquisitions.

Our success will depend, in part, on our ability to grow our business in response to the demands of consumers, dealers and other constituents within the automotive industry, as well as competitive pressures. In some circumstances, we may determine to do so through the acquisition of or investment in complementary businesses and technologies rather than through internal development, such as our acquisition of DealerScience in 2018 and our investment in Accu-Trade in 2019. The identification of suitable acquisition or investment candidates can be difficult, time-consuming and costly, and we may not be able to successfully complete identified acquisitions or investments.

The integration of acquisitions requires significant time and resources, and we may not manage these processes successfully. Our ability to successfully integrate acquired businesses, products and technologies is unproven. We may be required to make substantial investments of resources to support our acquisitions, which would result in significant ongoing operating expenses and could divert resources and management attention from other areas of our business. We cannot assure you that these investments will be successful. Additionally, strategic investments in and partnerships with other businesses expose us to the risk that we may not be able to control the operations of those businesses, which could decrease the benefits we realize from a particular relationship. We are also exposed to the risk that our partners in strategic investments may encounter financial difficulties that could lead to disruption of their activities, or impairment of assets acquired, which could adversely affect future reported results of operations and stockholders' equity.

The risks we face in connection with our acquisitions and investments include:

- diversion of management time and focus from operating our business to addressing acquisition integration or investment management challenges;
- additional operating losses and expenses of the business we acquired or in which we invested;
- coordination of technology, research and development and sales and marketing functions;
- transition of the acquired business's users to our website and mobile applications;
- retention of employees from the acquired business;
- cultural and other challenges associated with integrating employees from the acquired business into our organization;
- integration of the acquired business's accounting, management information, human resources, legal and other administrative systems;
- the need to implement or improve controls, procedures and policies at a business that prior to the acquisition may have lacked effective controls, procedures and policies;
- potential write-offs of intangibles or other assets acquired in acquisitions or similar transactions, or write-downs of investments, that may have an adverse effect our operating results in a given period;
- the risks associated with the businesses, products or technologies we acquired or invested in, which may differ from or be more significant than the risks our business faces;
- liability for the activities, products or services of the business we acquired or invested in, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities; and
- litigation or other claims in connection with the business, product or technology we acquired or invested in, including claims from terminated employees, consumers, former stockholders or other third parties.

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

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

We depend in part on Internet search engines such as Google, Bing and Yahoo! to drive traffic to our website, both through organic search results and the purchase of car-related keywords. For example, when a user types an automobile into an Internet search engine, we rely on a high organic search ranking of our webpages in these search results to refer the user to our website. However, our ability to maintain high, non-paid search result rankings is not within our control. Our competitors' Internet search engine optimization efforts may result in their websites receiving a higher search result page ranking than ours, or Internet search engines could revise their methodologies in a way that adversely affects our search result rankings. If Internet search engines modify their search algorithms in ways that are detrimental to us, or if our competitors' search engine optimization efforts are more successful than ours, overall growth in our user base could slow, our user base could decline or we could attract a less in-market user base. Internet search engine providers could provide automobile dealer and pricing information directly in search results, align with our competitors or choose to develop competing services. Our website has experienced fluctuations in search result rankings in the past, and we anticipate similar fluctuations in the future.

We also purchase car-related keywords by anticipating what words and terms consumers will use to search for car purchases on search engines and then bid on those words and terms in the search engines' auction systems. Search engines frequently update and change the logic that determines the placement and ordering of results on a user's search, which may reduce the effectiveness of the keywords we have purchased. Further, we bid against our competitors and other advertisers for preferred placement on the search engines' results pages. Many of our competitors have greater resources with which to bid and better brand recognition than we do. We have experienced increased competition for paid advertisements, which has increased the cost of paid Internet search advertising and as a result our marketing and advertising expenses. Search engines may also adopt a more aggressive auction-pricing system for keywords that causes us to incur higher advertising costs or reduces our market visibility to prospective users. If paid search advertising costs further increase or become cost-prohibitive, whether because of increased competition, pricing system changes, algorithm changes or otherwise, our advertising expenses could rise significantly or we could reduce or discontinue our paid search advertisements. Moreover, the use of voice recognition technology like Alexa, Google Assistant, Cortana or Siri may drive traffic away from search engines, which could reduce traffic to our website. Any reduction in the number of users directed to our website through Internet search engines could harm our business and operating results.

Our platform must integrate with a variety of web browsers and operating systems, both on desktop computers and mobile devices, that are developed by others, and our business is dependent on our ability to maintain our platform's functionality and deliver a compelling consumer experience across those browsers and operating systems.

We interact with users through our Internet-based platform, which is designed to operate on a variety of network, hardware and software platforms that are developed by others and over which we have no control, including the numerous web browsers and operating systems that consumers use to access the Internet, both on desktop computers and mobile devices. As a result, we need to continuously modify and enhance our platform to keep pace with consumers' evolving expectations and changes in network, hardware, software, communication and browser technologies. If we are unable to respond in a timely and cost-effective manner to these rapid technological developments, or otherwise to provide a compelling consumer experience across each of the devices and browsers that consumers prefer to use, our platform could become obsolete or otherwise attract fewer users, which could adversely impact our revenues, business and operating results.

The success of our business depends on consumers' continued and unimpeded access to our platform on the Internet.

Consumers must have Internet access to use our platform. Some providers may take measures that affect consumers' ability to use our platform, such as degrading the quality of the data packets we transmit over their lines, giving those packets lower priority, giving other packets higher priority than ours, blocking our packets entirely or attempting to charge their customers more for using our platform. If network operators attempt to interfere with our services, extract fees from us to deliver our platform or otherwise engage in discriminatory practices, our business could be adversely affected.

In December 2010, the FCC adopted so-called "net neutrality" rules barring Internet providers from blocking or slowing down access to online content, protecting services like ours from this type of interference, which we refer to as the Federal Net Neutrality Regulations. Effective June 11, 2018, however, the FCC repealed the Federal Net Neutrality Regulations, and considerable uncertainty currently surrounds the regulatory environment in this field. For example, on September 30, 2018, California enacted the California Internet Consumer Protection and Net Neutrality Act of 2018, or the California Net Neutrality Act. Among other things, the California Net Neutrality Act, which took effect on January 1, 2019, imposes net neutrality requirements similar to the Federal Net Neutrality Regulations. On the day of its enactment, the federal government sued California, claiming that the California Net Neutrality Act is preempted by federal law, and the State of California subsequently

agreed not to enforce the California Net Neutrality Act pending the resolution of the ongoing legal challenges. On October 1, 2019, the U.S. Court of Appeals for the D.C. Circuit upheld the FCC's repeal of the Federal Net Neutrality Regulations, but overturned the FCC's preemption of state-level regulations like the California Net Neutrality Act and similar enactments of other states, including Oregon, Vermont and Washington. As a result, considerable uncertainty currently complicates this area of the law. Additionally, on April 10, 2019, the United States House of Representatives voted in favor of legislation that would reinstate the Federal Net Neutrality Regulations. We cannot predict the final outcome of the legal challenges to the FCC's action and the California Net Neutrality Act or whether other states or governmental entities, including the U.S. Congress, will respond to the D.C. Circuit's decision, the FCC's decision or the enactment of the California Net Neutrality Act. Within this regulatory environment, we could experience discriminatory or anti-competitive practices that could impede our growth, cause us to incur additional expense or otherwise negatively affect our business.

If consumers and dealers do not accept our new branding, our financial performance and our ability to grow unique visitor traffic and expand our dealer network could be negatively affected.

In January 2020, we launched a rebranding campaign that included a change in our logo and extensive advertising and promotional activity. We expect to invest substantial amounts in advertising, supplies and capital, and changed exterior and interior signing. We also cannot be certain that we will recover the costs we will incur in the course of the rebranding campaign or that it will improve our brand recognition. If consumers and dealers do not accept our new branding, our sales, performance and consumer and dealer relationships could be adversely affected.

Moreover, following our rebranding, maintaining and enhancing the TrueCar brand largely depends on the success of our efforts to maintain the trust of our users and TrueCar Certified Dealers and to deliver value to each of our users and TrueCar Certified Dealers. If our existing or potential users come to perceive that we are not focused primarily on providing them with a better car-buying experience or if dealers do not perceive us as offering a compelling value proposition, our reputation and the strength of our brand would be adversely affected, even if the rebranding initiative is successful.

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

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

As we introduce new offerings, such as DealerScience's digital retailing tools and our TrueCar Trade, TrueCar Reach and Sponsored Listings products, or enhance existing products and services on our platform, we may incur losses or otherwise fail to enter these markets successfully. Our expansion into these markets may place us in competitive and regulatory environments with which we are unfamiliar and involves various risks, including the need to invest significant resources and the possibility that returns on these investments will not be achieved for several years, if at all.

In attempting to enhance our current product offerings and establish our new product offerings, we expect to incur significant expenses and face various other challenges, such as expanding our sales force and technology teams or management personnel to cover these markets and complying with complicated regulations that may apply to these markets. For example, in addition to management attention and redeployment of existing employees and resources, since the inception of our TrueCar Trade product with Accu-Trade and certain of its affiliates, we have incurred \$7.6 million in license fees and revenue share costs. We incurred \$2.6 million in such license fees and revenue share costs in the year ended December 31, 2019.

In addition, we may not successfully demonstrate the value of these expanded or complementary products to dealers or consumers, and failure to do so would compromise our ability to successfully expand our user experience and could harm our growth rate, revenue and operating performance.

Further, key contractual counterparties, including our affinity group marketing partners and automobile manufacturers who participate in our incentive programs, are increasingly requiring that our products adhere to technical standards, including accessibility standards, more stringent than those currently required by applicable law. Ensuring that our products adhere to these requirements could divert our attention from key initiatives and require the investment of a significant amount of resources and, if we are unsuccessful in implementing the standards, could negatively affect our reputation and contractual relationships, which could adversely affect our growth rate, revenue and financial and operating performance.

We may make product and investment decisions that do not prioritize short-term financial results and may not produce the long-term benefits that we expect.

We may make product and investment decisions that do not prioritize short-term financial results if we believe that those decisions are consistent with our mission or will otherwise improve our financial performance over the long term. For example, we recently completed a long-term replatforming of our technology platform that required a substantial dedication of resources over a sustained period of time and therefore caused a delay in pursuing other projects that may have had a more immediate financial impact. We also may introduce new features or other changes to existing products, or introduce new stand-alone products, that attract users away from products or use cases where we have more proven means of monetization. For example, in January 2020, we introduced a new consumer experience that allows our users more control over the dealers to which their contact information is provided and the specific information so provided. Although we believe that this experience will ultimately improve our product and yield long-term financial benefits, in the short-term it could result in less revenue as our traditional product monetizes fewer users, and it could ultimately be unsuccessful. These decisions may adversely affect our business and results of operations and may not produce the long-term benefits that we expect.

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

Decreases in consumer demand could adversely affect the market for automobile purchases and, as a result, reduce the number of consumers using our platform. Consumer purchases of new and used automobiles generally decline during recessionary periods and other periods in which disposable income is adversely affected. For example, the number of new vehicle sales in the United States decreased from approximately 16.1 million in 2007 to approximately 10.4 million in 2009, according to the Bureau of Economic Analysis. Various economic uncertainties, including stock market and commodity pricing volatility, could lead to a downturn that may impact our business. Purchases of new and used automobiles are typically discretionary for consumers and have been, and may continue to be, affected by negative trends in the economy, including the cost of energy and gasoline, the availability and cost of credit, reductions in business and consumer confidence, stock market volatility, new tariffs or border adjustment taxes, increased unemployment and changes in environmental regulations and fuel economy standards.

Interest rates in particular can have a significant impact on automobile purchases and affordability due to the direct relationship between interest rates and monthly loan payments, a critical factor for many consumers. Potential interest rate increases by the U.S. Federal Reserve could negatively affect the number of vehicles purchased by consumers, and any reduction in purchases could adversely affect automobile dealers and car manufacturers and lead to a reduction in other spending by these constituents, including targeted incentive programs. In addition, our business may be negatively affected by challenges to the larger automotive ecosystem, including challenges arising from growth in car manufacturer subscription service offerings, increasing interest rates on loans, global supply chain challenges, such as those resulting from automotive tariffs or the Japanese tsunami in 2011, and other macroeconomic issues. Any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

Further, in 2018, tariffs were imposed on certain imports of steel and aluminum into the United States. These tariffs are likely to increase the cost of manufacturing automobiles in the United States. Substantial tariffs have also been proposed on the importation into the United States of European automobiles, which represent a material portion of the new vehicles sold in the United States, and automobile parts from China. Each of these policies could materially increase the cost to U.S. consumers of new automobiles and thereby decrease the number of new vehicle sales in the United States, which could have a material adverse impact on our business, results of operations, financial condition and prospects.

We may fail to respond adequately to changes in technology and consumer demands that could lead to decreased demand for automobiles.

In recent years, the market for motor vehicles has been characterized by rapid changes in technology and consumer demands. Self-driving technology, ride sharing, transportation networks and other fundamental changes in the automotive industry and transportation technology and infrastructure could have a substantial impact on consumer demand for the purchase or lease of automobiles. If we fail to respond adequately to a decline in the demand for automobile purchases, it could have a material adverse effect on our business, growth, operating results, financial condition and prospects.

Additionally, we are not able to monetize a transaction in which a manufacturer sells an automobile directly to a consumer without the involvement of a TrueCar Certified Dealer, as Tesla does. If this practice becomes more widespread and we are not able to adjust, our business, growth, operating results, financial condition and prospects could be adversely affected.

If we suffer a significant interruption in our ability to gain access to third-party data, we may be unable to maintain key aspects of our user experience, including the TrueCar Curve, and our business and operating results would suffer.

Our business relies on our ability to analyze data for the benefit of our users and the TrueCar Certified Dealers in our network. We use data obtained through agreements with third parties to power certain aspects of the user experience on our platform, including the TrueCar Curve, a graphical distribution of what others paid for the same make and model of car. In addition, the effectiveness of our user acquisition efforts depends in part on the availability of data relating to existing and potential users of our platform. If we are unable to renew data agreements as they expire, or use alternative data sources, and we experience a material disruption in the data provided to us, the information that we provide to our users and TrueCar Certified Dealers may be limited, the quality of this information may suffer, the user experience may be negatively affected and certain functionality on our platform may be disabled, and our business, financial condition, results of operations and cash flows would be materially and adversely affected.

Our unique visitors, revenue and operating results fluctuate due to seasonality.

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

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

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

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

Security breaches and improper access to or disclosure of our data or user data, or other hacking and phishing attacks on our systems, could harm our reputation and adversely affect our business.

Our industry is prone to cyberattacks by third parties seeking unauthorized access to our data or users' data or to disrupt our ability to provide service. Any failure to prevent or mitigate security breaches and improper access to or disclosure of our data or user data, including personal information, content or payment information from users, could result in the loss or misuse of such data, which could harm our business and reputation and diminish our competitive position. In addition, computer malware, viruses, social engineering (such as spear phishing attacks) and general hacking have become more prevalent in our industry, have occurred on our systems in the past and are likely to occur on our systems in the future. Such attacks may cause interruptions to the services we provide, degrade the user experience, cause users to lose confidence and trust in our products, impair our internal systems or result in financial harm to us. Our efforts to protect our data or the data we receive could also be unsuccessful due to software bugs or other technical malfunctions; employee, contractor or vendor error or malfeasance; government surveillance; or other threats. In addition, third parties may attempt to fraudulently induce employees or users to disclose information to gain access to our data or our users' data. Cyberattacks continue to evolve in sophistication and volume and may be inherently difficult to detect for long periods of time. Although we have developed systems and processes that are designed to protect our data and user data, to prevent data loss and to prevent or detect security breaches, we cannot assure you that such measures will provide absolute security, and we may need to expend significant resources in protecting against or remediating security breaches and cyberattacks.

In addition, some of our third-party partners, including developers, affinity group marketing partners and OEM partners, may receive or store information that we or our users provide. If these partners fail to adopt or adhere to adequate data security practices, or suffer a breach of their networks, our data or our users' data could be improperly accessed, used or disclosed. Affected users or government authorities could initiate legal or regulatory actions against us in connection with any actual or perceived security breaches or improper disclosure of data, which could cause us to incur significant expense and liability or result in orders or consent decrees requiring us to modify our business practices. Such incidents or our efforts to remediate those incidents could have a material and adverse effect on our business, reputation or financial results.

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

We collect, process, store, share, disclose and use personal information and other data provided by consumers and dealers. We rely on encryption and authentication technology licensed from third parties to effect secure transmission of this information. From time to time, concerns have been expressed about whether our products, services or processes compromise the privacy of our users. Concerns about our practices with regard to the collection, use or disclosure of personal information or other privacy-related matters, even if unfounded, could harm our business and operating results.

There are numerous federal, state, local and foreign laws regarding privacy and the collection, processing, storage, sharing, disclosure, use or protection of personal information and other data. The scope of these laws is changing, they are subject to differing interpretations and they may be costly to comply with and may be inconsistent between countries and jurisdictions or conflict with other rules.

Numerous jurisdictions are currently considering, or have recently enacted, data protection legislation. For example, on June 28, 2018, California enacted the California Consumer Privacy Act of 2018, which we refer to as the California Privacy Act. The California Privacy Act, which took effect on January 1, 2020 but contains a "lookback" to January 1, 2019, imposes sweeping data protection obligations on many companies doing business in California and provides for substantial fines for non-compliance and, in some cases, a private right of action for consumers who are victims of data breaches involving their unencrypted personal information. Additionally, on October 11, 2019, the California Department of Justice, which we refer to as the California DOJ, published a notice of proposed rulemaking action with respect to draft regulations to implement the California Privacy Act, which it further amended on February 9, 2020 and which we refer to as the California Privacy Regulations. The California Privacy Act provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation. The California Privacy Act and regulations promulgated thereunder may increase our compliance costs and potential liability. Modifications to our data processing practices and policies, products and consumer experience that we have made to comply with the California Privacy Act and similar legislation, or that we may be required to make in the future as a result of the continuing changes to the requirements under that legislation or similar future legislation, may materially negatively impact our business, operating results, financial condition and prospects.

Legislation similar to the California Privacy Act has also passed in other states, including Colorado, Maine, Nevada and Utah. The potential effects of these states' legislation are far-reaching and may require us to incur substantial costs and expenses in an effort to comply, and it is unclear whether, and if so how, the United States Congress will respond to these overlapping, state-by-state enactments.

Further, many laws, including the Telephone Consumer Protection Act of 1991, the CAN-SPAM Act of 2003 and the Pallone-Thune Telephone Robocall Abuse Criminal Enforcement and Deterrence Act of 2019, regulate outbound contacts with consumers, such as phone calls, texts or emails. If we, or dealers on our network, are perceived to have violated these or other similar laws and regulations, our brand and reputation could be negatively affected and we could face potentially costly litigation.

Our business operations and data handling procedures are based on industry standards. We maintain and update privacy and information security policies and employ an audit and assurance program designed to ensure that we comply with privacy and security-related obligations to third parties. We strive to monitor the changing regulatory environment and to address the new requirements of applicable laws and regulations and other mandatory obligations relating to privacy and data protection. However, it is possible that these obligations may be interpreted and applied in new ways or in a manner that is inconsistent from one jurisdiction to another, that they may conflict with other rules or our practices or that new regulations could be enacted. In addition to the increasing technical and financial burdens they impose on our business, the rapid legislative and other legal developments in this field create considerable uncertainties and impose substantial compliance costs and challenges. Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to consumers or other third parties or our privacy-related legal obligations, including those imposed by the California Privacy Act and other state privacy laws, or any compromise of security that results in the unauthorized release or transfer of sensitive information, which may include personally identifiable information or other user data, may result in governmental enforcement actions, litigation or public statements against us by consumer advocacy groups or others. Any of these consequences could cause consumers and automobile dealers to lose trust in us, which could have a material adverse effect on our business and prospects. Additionally, if vendors, developers or other third parties that we work with violate applicable laws or our policies, such violations may also put consumer or dealer information at risk and could in turn harm our reputation, business and operating results.

Our products and internal systems rely on software that is highly technical, and if it contains undetected errors or vulnerabilities, our business could be adversely affected.

Our products and internal systems rely on software, including software developed or maintained internally or by third parties, that is highly technical and complex. In addition, our products and internal systems depend on the ability of that software to store, retrieve, process and manage substantial amounts of data. The software on which we rely has contained, and may in the future contain, undetected errors, bugs or vulnerabilities. Some errors may only be discovered after the code has been released for external or internal use. Errors, vulnerabilities or other design defects within the software on which we rely have in the past, and may in the future, result in a negative experience for consumers, dealers and partners who use our products, delay product introductions or enhancements, result in targeting, measurement or billing errors, compromise our ability to protect consumers', dealers' and partners' data and our intellectual property or lead to reductions in our ability to provide some or all of our products and services. In addition, any errors, bugs, vulnerabilities or defects discovered in the software on which we rely, and any associated degradations or interruptions of service, could result in damage to our reputation, loss of users, loss of revenue or liability for damages, any of which could adversely affect our business and financial results.

Our business is dependent on our ability to maintain and scale our technical infrastructure, and any significant disruption in service on our website or mobile applications could damage our reputation and result in a loss of consumers, which could harm our business, brand, operating results and financial condition.

Our brand, reputation and ability to attract consumers, affinity groups and advertisers depend on the reliable performance of our technology platform and content delivery. We have on occasion in the past and may in the future experience interruptions with our systems. Interruptions in these systems, whether due to system failures, computer viruses, denial-of-service attacks or physical or electronic break-ins, could affect the security or availability of our products and services on our website and mobile application and prevent or inhibit the ability of consumers to access our products and services. As our consumer base and the number of TrueCar Certified Dealers continue to grow, we will need an increasing amount of technical infrastructure, including network capacity and computing power, to continue to satisfy consumers' and dealers' needs. It is possible that we may not effectively scale and grow our technical infrastructure to accommodate these increased demands. Problems with the reliability or security of our systems or with the upgrading, architectural unification or scaling of those systems could harm our reputation, result in a loss of consumers, dealers and affinity group marketing partners and result in additional costs. In addition, a significant disruption in our billing systems could affect our ability to match automobile purchases made by our users from TrueCar Certified Dealers and delay or prevent us from submitting invoices to TrueCar Certified Dealers, receiving payment for invoices and recognizing revenue related to purchases.

Any errors, defects, disruptions or other performance or reliability problems with our network operations, or with the services we receive from third-party network infrastructure providers, could cause interruptions in access to our products and could harm our reputation, business, operating results and financial condition.

We rely on Amazon Web Services for the majority of our computing, storage, bandwidth and other services. Any disruption of or interference with our use of the Amazon Web Services operation would negatively affect our operations and seriously harm our business.

Amazon provides a distributed computing infrastructure platform for business operations, or what is commonly referred to as a “cloud” computing service, and we currently run the vast majority of our computing on Amazon Web Services.

Any transition of the cloud services currently provided by Amazon Web Services to another cloud provider would be difficult to implement and would cause us to incur significant time and expense. We have built our software and computer systems to use computing, storage capabilities, bandwidth and other services provided by Amazon, some of which do not have a readily available alternative in the market. Given this, any significant disruption of or interference with our use of Amazon Web Services would negatively impact our operations and seriously harm our business.

If our users or partners are not able to access our products and services through Amazon Web Services or encounter difficulties in doing so, we may lose customers, TrueCar Certified Dealers, partners and revenue. The level of service provided by Amazon Web Services or similar providers may also impact our customers’, TrueCar Certified Dealers’ and partners’ usage of our products and services and satisfaction with us. If Amazon Web Services or similar providers experience interruptions in service regularly or for a prolonged period of time, or other similar issues, our business would be seriously harmed. Hosting costs also have increased and are likely to continue to increase as our user base and user engagement grow and may seriously harm our business if we are unable to grow our revenues faster than the cost of using the services of Amazon or similar providers.

Amazon has broad discretion to change and interpret its terms of service and other policies that apply to us, and those actions may be unfavorable to us. Amazon may also alter how we are able to process data on the Amazon Web Services platform. If Amazon makes changes or interpretations that are unfavorable to us, our business could be seriously harmed. Additionally, any disruption of or interference with the use of Amazon Web Services, including disruptions due to system failures, denial-of-service or other cyberattacks and computer viruses, or an interruption to Amazon’s systems or in the infrastructure that allows us to connect to them for an extended period, may impact our ability to operate the business and could adversely impact our operations and our business.

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

Our business depends on our intellectual property, the protection of which is crucial to the success of our business. We rely on a combination of patent, trademark, trade secret and copyright law and contractual restrictions to protect our intellectual property. In addition, we attempt to protect our intellectual property, technology and confidential information by requiring our employees and consultants to enter into confidentiality and assignment of inventions agreements and third parties to enter into nondisclosure agreements. These agreements may not effectively prevent unauthorized use or disclosure of our confidential information, intellectual property or technology and may not provide an adequate remedy in the event of unauthorized use or disclosure of our confidential information, intellectual property or technology. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our website features, software and functionality or obtain and use information that we consider proprietary.

Competitors may adopt service names similar to ours, thereby harming our ability to build brand identity and possibly leading to user confusion. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of the term “TrueCar.”

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

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

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

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

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

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

We have incurred and will continue to incur substantial costs as a result of operating as a public company, and our management has been and will be required to continue to devote substantial time to compliance with our public company responsibilities and corporate governance practices.

As a public company, we have incurred, and will continue to incur, significant legal, accounting and other expenses. In addition, the Sarbanes-Oxley Act, the Dodd-Frank Act and other laws and rules implemented by the SEC and Nasdaq impose various requirements on public companies, including in relation to corporate governance practices. Our management and other personnel devote a substantial amount of time to these compliance initiatives. Moreover, changing rules and regulations may increase our legal, accounting and financial compliance costs and make some activities more time consuming and costly. If, despite our efforts to comply with new or changing laws, regulations and standards, we fail to comply, regulatory authorities may initiate legal proceedings against us, and our business may be harmed. Further, failure to comply with these laws, regulations and standards may make it more difficult and more expensive for us to obtain directors' and officers' liability insurance, and we may be required to accept reduced policy limits and coverage or to incur substantial costs to maintain the same or similar coverage, which could make it more difficult for us to attract and retain qualified persons to serve on our board of directors or our board committees or as executive officers.

Our compliance with applicable provisions of Section 404 of the Sarbanes-Oxley Act relating to management assessment of internal controls requires that we incur substantial accounting expense and expend significant management time on compliance-related issues as we implement additional corporate governance practices and comply with reporting requirements. If we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

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

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

We had goodwill and intangible assets of \$90.6 million at December 31, 2019. Under accounting principles generally accepted in the United States, we review our goodwill for impairment annually in the fourth quarter of each fiscal year, or more frequently if events or changes in circumstances indicate the carrying value may not be recoverable. We review our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. While we have not recognized any impairment charges since our inception, we may recognize impairment charges in future periods in connection with businesses we acquire or in which we invest. The carrying value of our goodwill and intangible assets may not be recoverable due to factors such as a decline in our stock price and market capitalization, reduced estimates of future revenues or cash flows or slower growth rates in our industry. Estimates of future revenues and cash flows are based on a long-term financial outlook of our operations. Actual performance in the near-term or long-term could be materially different from these forecasts, which could impact future estimates and the recorded value of the intangibles. For example, a significant, sustained decline in our stock price and market capitalization may result in impairment of our intangible assets, including goodwill, and a significant charge to earnings in our consolidated financial statements during the period in which an impairment is determined to exist. If we have to reduce the carrying value of our goodwill or intangible assets, the impairment charge could materially and adversely affect our results of operations.

We review our equity-method investments for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. We recognize an impairment of an equity-method investment if the fair value of the investment as a whole, and not the underlying assets, has declined and the decline is other than temporary. If our equity-method investment in Accu-Trade, or any other equity-method investment that we make in the future, is not recoverable, we may be required to record an impairment charge, which could materially and adversely affect our results of operations.

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

We had federal net operating loss carryforwards of approximately \$415.1 million and state net operating loss carryforwards of approximately \$242.5 million at December 31, 2019. These federal and state net operating loss carryforwards begin to expire in the years ending December 31, 2025 and 2020, respectively. Federal net operating losses generated after December 31, 2017 will not expire and will carry forward indefinitely, but will be limited in any given year to offsetting a maximum of 80% of our taxable income for the year, determined without regard to the application of such net operating loss carryforwards. At December 31, 2019, we had federal and state research and development credit carryforwards of approximately \$0.8 million and \$0.4 million, respectively. The federal credit carryforwards begin to expire in the year ending December 31, 2028. The state credit carryforwards can be carried forward indefinitely.

Sections 382 and 383 of the Internal Revenue Code impose substantial restrictions on the use of net operating losses and other tax attributes in the event of a cumulative “ownership change” of a corporation of more than 50% over a three-year period. Accordingly, if we generate taxable income in the future, changes in our stock ownership, including equity offerings, as well as other changes that may be outside our control, could potentially result in material limitations on our ability to use our net operating loss and research tax credit carryforwards. During 2019, we experienced a cumulative ownership change. This ownership change could have materially impaired the Company’s ability to utilize its net operating losses and tax credits. Upon receipt of certain additional information from investors, the Company will determine the amount of potential limitation. Any decrease in deferred tax assets associated with these tax attributes would be fully offset by a corresponding decrease in our valuation allowance, with no net tax provision impact.

Changes in applicable tax law and resolutions of tax disputes could negatively affect our financial results.

We are subject to taxation in the United States. Changes in tax laws applicable to us, including interpretations thereof and related accounting standards, could materially and adversely affect our business, financial condition, results of operations and cash flows. For example, in 2018, the United States Supreme Court issued its decision in *South Dakota v. Wayfair, Inc.* That decision overturned prior case law that online sellers are not required to collect sales and use taxes unless they have a physical presence in the buyer’s state. Although the *Wayfair* decision has not had a material effect on our business, it has resulted in nationwide uncertainty over sales tax liability and could precipitate responses from federal and state legislators, regulators and courts that materially increase our tax administrative costs and tax risk.

Natural disasters, public health crises, political crises and other catastrophic events or other events outside of our control could damage our facilities or the facilities of third parties on which we depend, and could impact consumer spending.

Our corporate headquarters, a majority of our employees and many of our essential business operations are located in the Los Angeles area, near major geologic faults that have experienced earthquakes in the past. An earthquake or other natural disaster or power shortage or outage could disrupt operations or impair critical systems. Any of these disruptions or other events outside of our control could affect our business negatively, harming our operating results. In addition, if any of our facilities or the facilities of our third-party service providers, dealers or partners is affected by natural disasters, such as earthquakes, tsunamis, wildfires, power shortages, floods, public health crises (such as pandemics and epidemics), political crises (such as terrorism, war, political instability or other conflict) or other events outside our control, including a cyberattack, our critical business or IT systems could be destroyed or disrupted and our ability to conduct normal business operations and our revenues and operating results could be adversely affected. Moreover, these types of events could negatively impact consumer spending in the impacted regions or, depending upon the severity, globally, which could adversely impact our operating results. For example, in December 2019, a strain of coronavirus was reported to have surfaced in China, resulting in store closures and a decrease in consumer traffic in China. At this point, the extent to which the coronavirus may impact our results is uncertain.

Risks Related to Ownership of Our Common Stock

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

We have provided and may continue to provide guidance about our business and future operating results, including financial results for the quarter ending March 31, 2020, as well as the year ending December 31, 2020, as part of our press releases, investor conference calls or otherwise. In developing this guidance, our management must make certain assumptions and judgments about our future performance. For example, in the second quarter of 2015 and the fourth quarter of 2018, our business results varied significantly from guidance for the quarter and the price of our common stock declined. Our future business results may vary significantly from management's guidance due to a number of factors, many of which are outside of our control, and which could materially and adversely affect our operations, financial condition and operating results. If our publicly-announced guidance of future operating results fails to meet the expectations of securities analysts, investors or other interested parties, the price of our common stock could decline.

Concentration of ownership among our existing executive officers and directors, their affiliates and holders of 5% or more of our outstanding common stock may prevent new investors from influencing significant corporate decisions.

As of December 31, 2019, our executive officers, directors and holders of 5% or more of our outstanding common stock (based upon the most recent filings on Schedule 13G with the SEC with respect to each such holder) beneficially own, in the aggregate, approximately 69% of our outstanding shares of common stock (assuming exercise of all beneficially owned shares). Some of these persons or entities may have interests that are different from yours. For example, these stockholders may support proposals and actions with which you may disagree or which are not in your interests. These stockholders are able to exercise a significant level of control over all matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation and approval of significant corporate transactions. This control could have the effect of delaying or preventing a change of control of our company or changes in management and will make the approval of certain transactions difficult or impossible without the support of these stockholders, which in turn could reduce the price of our common stock.

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

The trading price of our common stock has been volatile since our initial public offering and is likely to continue to fluctuate substantially. For the fiscal year ended December 31, 2019, the trading price of our common stock fluctuated from a low of \$3.01 per share to a high of \$10.39 per share. The trading price of our common stock depends on a number of factors, including those described in this "Risk Factors" section, many of which are beyond our control and may not be related to our operating performance. These fluctuations could cause you to lose all or part of your investment in our common stock since you might be unable to sell your shares at or above the price you paid. Factors that could cause fluctuations in the trading price of our common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of high technology stocks;

- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- sales of shares of our common stock by us or our stockholders;
- the failure of securities analysts to maintain coverage of us, changes in financial estimates or recommendations by any securities analysts who follow our company;
- our failure to meet our publicly-announced guidance of future operating results or otherwise to meet the expectations of securities analysts or investors in this regard;
- announcements by us or our competitors of new products;
- the public's reaction to our press releases, other public announcements and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our operating results or fluctuations in our operating results;
- actual or anticipated developments in our business, our competitors' businesses or the competitive landscape generally;
- our ability to control costs, including our operating expenses;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- announced or completed acquisitions of or investments in businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- any significant change in our management;
- conditions in the automobile industry; and
- general economic conditions and slow or negative growth of our markets.

In addition, the stock market in general, and the market for technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may seriously affect the market price of our common stock, regardless of our actual operating performance. Additionally, as a public company, we face the risk of shareholder lawsuits, particularly if we experience declines in the price of our common stock. In the past, following periods of volatility in the overall market and the market prices of a particular company's securities, securities class action lawsuits have often been instituted against affected companies. We have been, and may in the future be, subject to these legal actions.

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

The market price of our common stock could decline as a result of the sale of substantial amounts of our common stock, particularly sales by our directors, executive officers and significant stockholders, a large number of shares of our common stock becoming available for sale or the perception in the market that holders of a large number of shares intend to sell their shares.

At December 31, 2019, approximately 106.9 million shares of our common stock were outstanding. In addition, as of December 31, 2019, there were 10.6 million shares underlying options and 5.9 million shares underlying restricted stock units. If these additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our stock could decline. Under Rule 144 under the Securities Act, shares held by non-affiliates for more than six months may generally be sold without restriction, other than a current public information requirement, and may be sold freely without any restrictions after one year. Shares held by affiliates may also be sold under Rule 144, subject to applicable restrictions, including volume and manner of sale limitations.

In January 2017, we filed a shelf registration statement on Form S-3, which we refer to as the 2017 Registration Statement. Under the 2017 Registration Statement, we sold 1.15 million shares of common stock and certain selling stockholders sold 9.2 million shares of common stock.

Although the 2017 Registration Statement has expired and we have deregistered the unsold shares thereunder, we may file a subsequent registration statement with the SEC, after which we or selling stockholders may periodically offer additional securities in amounts, at prices and on terms to be announced when and if the securities are offered. If we do so, we will prepare and file with the SEC a prospectus supplement containing specific information about the terms of the offering.

You may experience future dilution as a result of future equity offerings.

If we raise additional funds through the sale of equity or convertible debt securities, the issuance of the securities will result in dilution to our stockholders. We may sell shares or other securities in any other offering at a price per share that is less than the price per share paid by investors in the past, and investors purchasing shares or other securities in the future could have rights superior to existing stockholders. The price per share at which we sell additional shares of our common stock, or securities convertible or exchangeable into common stock, in future transactions may be higher or lower than the price per share paid in the past. In addition, if we were to issue securities in connection with our acquisition of complementary businesses, products or technologies, our stockholders would also experience dilution.

Future sales of shares by existing stockholders could cause our stock price to decline.

If our existing stockholders, including employees and service providers who obtain equity, sell substantial amounts of our common stock in the public market, the trading price of our common stock could decline. All of our outstanding shares are eligible for sale in the public market, other than approximately 10.8 million shares (including vested options) as of December 31, 2019 held by directors, executive officers and other affiliates that are subject to volume limitations under Rule 144 of the Securities Act. Our employees, other service providers and directors are subject to our quarterly trading blackouts. In addition, we have reserved shares for issuance under our equity incentive plans. The issuance and subsequent sale of these shares will be dilutive to our existing stockholders and the trading price of our common stock could decline.

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

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

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

- providing our board of directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings.

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

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

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

Our certificate of incorporation provides that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or agents.

Our certificate of incorporation provides that, unless we otherwise agree, the Court of Chancery of the State of Delaware will be the exclusive forum for:

- any derivative action or proceeding brought on our behalf;
- any action asserting a breach of fiduciary duty;
- any action asserting a claim against us under the Delaware General Corporation Law, our certificate of incorporation or our bylaws;
- any action to interpret, apply, enforce or determine the validity of our certificate of incorporation or bylaws; and
- any action asserting a claim against us that is governed by the internal-affairs doctrine.

This exclusive-forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, employees or other agents, which may discourage lawsuits against us and our directors, officers, employees and other agents. If a court were to find this exclusive-forum provision to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could harm our business.

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

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

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

We have never declared or paid cash dividends on our common stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not anticipate declaring any cash dividends to holders of our common stock in the foreseeable future. In addition, the terms of our credit facility currently restrict our payment of cash dividends on our capital stock. Consequently, investors may need to rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We maintain our principal office in Santa Monica, California. We also lease an office near Austin, Texas. We maintain additional, collectively immaterial leased spaces in several other locations throughout the United States as well. We believe that our facilities are adequate to meet our needs for the immediate future, and that should it be needed, we will be able to secure additional space to accommodate any such expansion of our operations.

Item 3. Legal Proceedings

Please refer to the disclosure under the heading “Legal Proceedings” in Note 9 “Commitments and Contingencies” to our annual consolidated financial statements included in Part II, Item 8 of this report for a description of our material pending legal proceedings, which disclosure is incorporated by reference into this Item 3 of Part I.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information for Common Stock

Our common stock has been listed on the Nasdaq Global Select Market under the symbol “TRUE” since May 16, 2014. Our initial public offering was priced at \$9.00 per share. Before that date, there was no public trading market for our common stock.

Holders of Record

As of February 21, 2020, there were 113 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders and includes stockholders who are beneficial owners but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Dividend Policy

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings and do not anticipate paying any dividends on our common stock in the foreseeable future. Any future determination to declare dividends will be made at the discretion of our board of directors and will depend on our financial condition, operating results, capital requirements, general business conditions, any restrictions on paying dividends, including the current restriction on our ability to pay dividends under our credit facility, and other factors that our board of directors may deem relevant.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Sales of Unregistered Securities

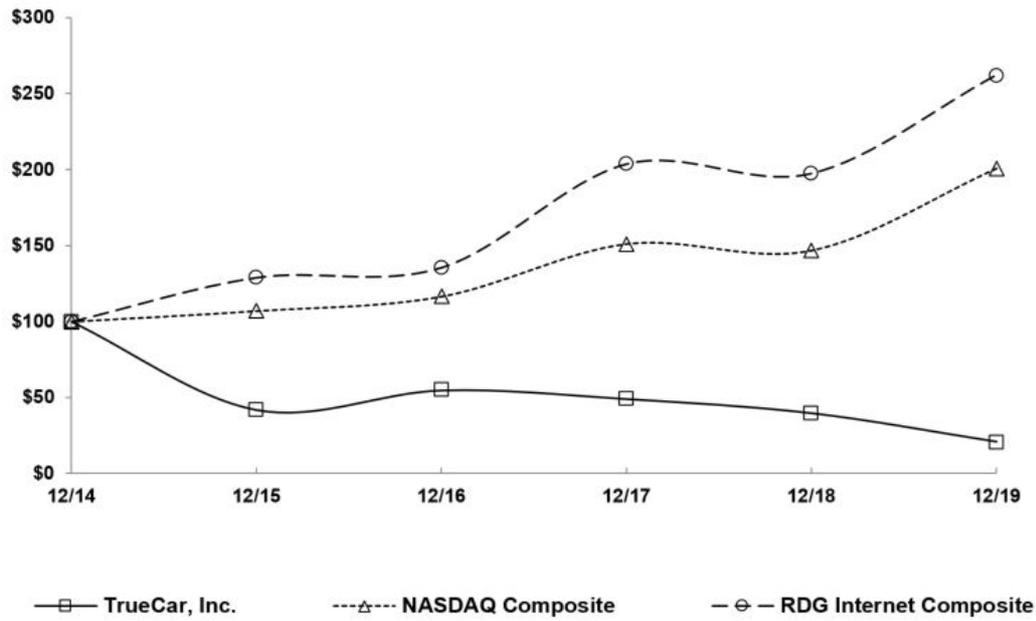
None.

Stock Performance Graph

The following shall not be deemed “soliciting material” or to be “filed” for purposes of Section 18 of the Exchange Act, or incorporated by reference into any of our other filings under the Exchange Act or the Securities Act of 1933, as amended, except to the extent we specifically incorporate it by reference into such filing. The following graph shows a comparison from December 31, 2014 through December 31, 2019 of the cumulative total return for our common stock, the Nasdaq Composite Index (Nasdaq Composite) and the RDG Internet Composite. The graph assumes that \$100 was invested at the market close on December 31, 2014 in our common stock, the Nasdaq Composite and the RDG Internet Composite, and the data for the Nasdaq Composite and the RDG Internet Composite assumes reinvestments of dividends. As discussed above, we have never declared or paid a cash dividend on our common stock and do not anticipate declaring or paying a cash dividend in the foreseeable future. The stock price performance of the following graph is not necessarily indicative of future stock price performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among TrueCar, Inc., the NASDAQ Composite Index
and the RDG Internet Composite Index



*\$100 invested on 12/31/14 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

Item 6. Selected Financial Data

We have derived the following selected consolidated statement of operations data for the years ended December 31, 2019, 2018 and 2017 and the selected consolidated balance sheet data at December 31, 2019 and 2018 from our audited consolidated financial statements included elsewhere herein. We have derived the selected consolidated statement of operations data for the years ended December 31, 2016 and 2015, and the consolidated balance sheet data at December 31, 2017, 2016 and 2015 from our audited consolidated financial statements which are not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results that may be expected in the future.

You should read the following selected consolidated financial and other data together with the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements, related notes and other financial information included elsewhere in this Annual Report on Form 10-K. The selected consolidated financial data in this section is not intended to replace the consolidated financial statements and are qualified in their entirety by the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

Consolidated Statements of Operations Data:

	Year Ended December 31,				
	2019	2018	2017	2016	2015
	(in thousands, except share and per share amounts)				
Revenues	\$ 353,880	\$ 353,571	\$ 323,149	\$ 277,507	\$ 259,838
Cost and operating expenses:					
Cost of revenue (exclusive of depreciation and amortization presented separately below)(1):	33,427	31,154	28,227	25,167	23,657
Sales and marketing (1)	229,342	213,415	185,397	154,406	151,002
Technology and development (1)	57,188	61,348	59,070	53,580	48,021
General and administrative (1)	65,148	54,140	61,646	59,908	83,494
Depreciation and amortization	25,591	22,677	22,472	23,345	17,646
Total costs and operating expenses	410,696	382,734	356,812	316,406	323,820
Loss from operations	(56,816)	(29,163)	(33,663)	(38,899)	(63,982)
Interest income	3,495	3,314	1,260	376	107
Interest expense	—	(2,649)	(2,610)	(2,530)	(443)
Loss from equity method investment	(1,280)	—	—	—	—
Other income	—	—	—	—	13
Loss before income taxes	(54,601)	(28,498)	(35,013)	(41,053)	(64,305)
Provision for (benefit from) income taxes	289	(177)	(2,164)	655	606
Net loss	\$ (54,890)	\$ (28,321)	\$ (32,849)	\$ (41,708)	\$ (64,911)
Net loss per share, basic and diluted (2)	\$ (0.52)	\$ (0.28)	\$ (0.35)	\$ (0.49)	\$ (0.79)
Weighted average common shares outstanding, basic and diluted (2)	105,805	102,149	94,865	84,483	81,914
Other Financial Information:					
Adjusted EBITDA (3)	\$ 18,919	\$ 33,510	\$ 28,884	\$ 15,039	\$ 7,572
Non-GAAP net (loss) income (4)	\$ (3,466)	\$ 11,675	\$ 7,226	\$ (11,115)	\$ (11,016)

(1) The following table presents stock-based compensation expense included in each respective expense category:

	Year Ended December 31,				
	2019	2018	2017	2016	2015
	(in thousands)				
Cost of revenue	\$ 2,157	\$ 1,726	\$ 1,105	\$ 960	\$ 792
Sales and marketing	13,362	13,950	10,353	5,837	4,493
Technology and development	8,256	10,589	8,060	4,398	4,294
General and administrative	14,199	10,954	12,723	13,544	32,984
Total stock-based compensation expense	\$ 37,974	\$ 37,219	\$ 32,241	\$ 24,739	\$ 42,563

(2) See Note 13 to our audited consolidated financial statements for an explanation of the calculations of our basic and diluted net loss per share attributable to common stockholders.

(3) Adjusted EBITDA is not a measure of our financial performance under GAAP and should not be considered as an alternative to net loss, operating income or any other measures derived in accordance with GAAP. For a definition of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net loss, see “Non-GAAP Financial Measures.”

(4) Non-GAAP net (loss) income is not a measure of our financial performance under GAAP and should not be considered as an alternative to net loss or any other measures derived in accordance with GAAP. For a definition of Non-GAAP net (loss) income and a reconciliation of Non-GAAP net (loss) income to net loss, see “Non-GAAP Financial Measures.”

	At December 31,				
	2019	2018	2017	2016	2015
	(in thousands)				
Selected Consolidated Balance Sheet Data					
Cash and cash equivalents	\$ 181,534	\$ 196,128	\$ 197,762	\$ 107,721	\$ 112,371
Working capital	185,571	213,897	205,573	117,549	113,855
Property and equipment, net	29,797	61,511	70,710	66,941	71,390
Total assets	421,687	420,960	384,834	294,448	302,374
Lease financing obligation	—	22,987	29,129	28,833	26,987
Total stockholders' equity	327,271	346,553	313,118	224,581	232,692

Non-GAAP Financial Measures

Adjusted EBITDA and Non-GAAP net income (loss) are financial measures that are not calculated in accordance with generally accepted accounting principles in the United States, or GAAP. We define Adjusted EBITDA as net loss adjusted to exclude interest income, interest expense, depreciation and amortization, stock-based compensation, non-cash warrant expense, income (loss) from equity method investment, certain litigation costs, certain restructuring costs, certain costs associated with the departures of certain of our former executives, certain transaction costs, changes in the fair value of contingent consideration, lease-exit costs and income taxes. We define Non-GAAP net income (loss) as net loss adjusted to exclude stock-based compensation, non-cash warrant expense, income (loss) from equity method investment, certain litigation costs, certain restructuring costs, certain costs associated with the departures of certain of our former executives, certain transaction costs, changes in the fair value of contingent consideration and lease-exit costs. We have provided below a reconciliation of each of Adjusted EBITDA and Non-GAAP net income (loss) to net loss, the most directly comparable GAAP financial measure. Neither Adjusted EBITDA nor Non-GAAP net income (loss) should be considered as an alternative to net loss or any other measure of financial performance calculated and presented in accordance with GAAP. In addition, our Adjusted EBITDA and Non-GAAP net income (loss) measures may not be comparable to similarly titled measures of other organizations as they may not calculate Adjusted EBITDA or Non-GAAP net income (loss) in the same manner as we calculate these measures.

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

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

- Adjusted EBITDA does not reflect the payment or receipt of interest or the payment of income taxes;
- neither Adjusted EBITDA nor Non-GAAP net income (loss) reflects changes in, or cash requirements for, our working capital needs;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditures or any other contractual commitments;
- neither Adjusted EBITDA nor Non-GAAP net income (loss) reflects the 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 (loss) reflects the severance charges associated with restructuring plans;
- neither Adjusted EBITDA nor Non-GAAP net income (loss) reflects severance charges associated with the departures of certain of our former executives;
- neither Adjusted EBITDA nor Non-GAAP net income (loss) reflects the lease exit costs associated with consolidation of our office locations in Santa Monica, California;
- neither Adjusted EBITDA nor Non-GAAP net income (loss) reflects net loss from our equity method investment;
- neither Adjusted EBITDA nor Non-GAAP net income (loss) reflects the legal, accounting, consulting and other third-party fees and costs incurred by us in connection with the evaluation and negotiation of potential merger and acquisition transactions;
- neither Adjusted EBITDA nor Non-GAAP net income (loss) considers the potentially dilutive impact of shares issued or to be issued in connection with stock-based compensation or warrant issuances; and
- other companies, including companies in our own industry, may calculate Adjusted EBITDA and Non-GAAP net income (loss) differently than we do, limiting their usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted EBITDA and Non-GAAP net income (loss) alongside other financial performance measures, including our net loss, our other GAAP results, and various cash flow metrics. In addition, in evaluating Adjusted EBITDA and Non-GAAP net income (loss) you should be aware that in the future we will incur expenses such as

those that are the subject of adjustments in deriving Adjusted EBITDA and Non-GAAP net income (loss), and you should not infer from our presentation of Adjusted EBITDA and Non-GAAP net income (loss) that our future results will not be affected by these expenses or any unusual or non-recurring items.

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

	Year Ended December 31,				
	2019	2018	2017	2016	2015
	(in thousands)				
Reconciliation of Net Loss to Adjusted EBITDA:					
Net loss	\$ (54,890)	\$ (28,321)	\$ (32,849)	\$ (41,708)	\$ (64,911)
Non-GAAP adjustments:					
Interest income	(3,495)	(3,314)	(1,260)	(376)	(107)
Interest expense	—	2,649	2,610	2,530	443
Depreciation and amortization	25,591	22,677	22,472	23,345	17,646
Stock-based compensation (1)	37,974	37,219	32,241	24,739	42,563
Warrant expense (reduction)	—	—	—	46	(803)
Loss from equity method investment	1,280	—	—	—	—
Certain litigation costs (2)	1,575	2,157	7,967	960	6,171
Executive departure costs (3)	5,089	—	—	508	3,732
Restructuring charges (4)	3,280	—	—	1,275	—
Transaction costs (5)	1,926	620	—	—	—
Change in fair value of contingent consideration	300	—	—	—	—
Lease exit costs (6)	—	—	(133)	3,065	2,232
Provision for (benefit from) income taxes	289	(177)	(2,164)	655	606
Adjusted EBITDA	<u>\$ 18,919</u>	<u>\$ 33,510</u>	<u>\$ 28,884</u>	<u>\$ 15,039</u>	<u>\$ 7,572</u>

- (1) The excluded amounts include stock-based compensation of \$7.2 million incurred in the second quarter of 2019 associated with the acceleration of certain equity awards and the extension of the exercise period for certain vested stock options related to the departures of certain executives, including our former chief executive officer, and stock-based compensation of \$10.7 million incurred in the fourth quarter of 2015 related to the departure of certain executives.
- (2) 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.
- (3) The excluded amounts include (i) \$4.6 million in executive severance costs, as well as related recruiting fees of \$0.5 million, associated with the separation of our former chief executive officer and the termination of executive-level employees in connection with the change in chief executive officer in 2019, (ii) \$0.5 million in executive severance costs related to an executive who terminated in 2016 and (iii) \$3.4 million in executive severance costs, as well as related recruiting fees of \$0.3 million, associated with the separation of our former chief executive officer in 2015. We believe excluding the impact of these terminations and the associated chief executive officer recruiting fees is consistent with our use of these non-GAAP measures as we do not believe they are a useful indicator of our ongoing operating results.
- (4) The excluded amounts include (i) \$3.3 million in charges associated with a restructuring plan undertaken in 2019 to improve efficiency and reduce expenses and (ii) \$1.3 million in charges associated with a reorganization of our product and technology teams undertaken in 2016 to better align our resources with business objectives as we transitioned from multiple software platforms to a unified architecture. We believe excluding the impact of these charges is consistent with our use of these non-GAAP measures as we do not believe they are a useful indicator of our ongoing operating results.

- (5) The excluded amounts represent external legal, accounting, consulting and other third-party fees and costs we incurred in connection with the evaluation and negotiation of potential acquisition transactions. These expenses are included in general and administrative expenses in our consolidated statements of comprehensive loss. We consider these fees and costs, which are associated with potential merger and acquisition transactions outside the normal course of our operations, to be unrelated to our underlying results of operations and believe that their exclusion provides investors with a more complete understanding of the factors and trends affecting our business operations.
- (6) The excluded amounts represent the initial estimate and updates to that 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 (loss) income for each of the periods presented:

	Year Ended				
	December 31,				
	2019	2018	2017	2016	2015
	(in thousands)				
Reconciliation of Net Loss to Non-GAAP Net (Loss) Income:					
Net loss	\$ (54,890)	\$ (28,321)	\$ (32,849)	\$ (41,708)	\$ (64,911)
Non-GAAP adjustments:					
Stock-based compensation (1)	37,974	37,219	32,241	24,739	42,563
Loss from equity method investment	1,280	—	—	—	—
Warrant expense (reduction)	—	—	—	46	(803)
Certain litigation costs (2)	1,575	2,157	7,967	960	6,171
Executive departure costs (3)	5,089	—	—	508	3,732
Restructuring charges (4)	3,280	—	—	1,275	—
Transaction costs (5)	1,926	620	—	—	—
Change in fair value of contingent consideration	300	—	—	—	—
Lease exit costs (6)	—	—	(133)	3,065	2,232
Non-GAAP net (loss) income (7)	<u>\$ (3,466)</u>	<u>\$ 11,675</u>	<u>\$ 7,226</u>	<u>\$ (11,115)</u>	<u>\$ (11,016)</u>

- (1) The excluded amounts include stock-based compensation of \$7.2 million incurred in the second quarter of 2019 associated with the acceleration of certain equity awards and the extension of the exercise period for certain vested stock options related to the departures of certain executives, including our former chief executive officer, and stock-based compensation of \$10.7 million incurred in the fourth quarter of 2015 related to the departure of certain executives.
- (2) 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.
- (3) The excluded amounts include (i) \$4.6 million in executive severance costs, as well as related recruiting fees of \$0.5 million, associated with the separation of our former chief executive officer and the termination of executive-level employees in connection with the change in chief executive officer in 2019, (ii) \$0.5 million in executive severance costs related to an executive who terminated in 2016 and (iii) \$3.4 million in executive severance costs, as well as related recruiting fees of \$0.3 million, associated with the separation of our former chief executive officer in 2015. We believe excluding the impact of these terminations and the associated chief executive officer recruiting fees is consistent with our use of these non-GAAP measures as we do not believe they are a useful indicator of our ongoing operating results.
- (4) The excluded amounts include (i) \$3.3 million in charges associated with a restructuring plan undertaken in 2019 to improve efficiency and reduce expenses and (ii) \$1.3 million in charges associated with a reorganization of our product and technology teams undertaken in 2016 to better align our resources with business objectives as we transitioned from multiple software platforms to a unified architecture. We believe excluding the impact of these charges is consistent with our use of these non-GAAP measures as we do not believe they are a useful indicator of our ongoing operating results.

- (5) The excluded amounts represent external legal, accounting, consulting and other third-party fees and costs we incurred in connection with the evaluation and negotiation of potential acquisition transactions. These expenses are included in general and administrative expenses in our consolidated statements of comprehensive loss. We consider these fees and costs, which are associated with potential merger and acquisition transactions outside the normal course of our operations, to be unrelated to our underlying results of operations and believe that their exclusion provides investors with a more complete understanding of the factors and trends affecting our business operations.
- (6) The excluded amounts represent the initial estimate and updates to that estimate of lease termination costs associated with the consolidation of the Company's office locations in Santa Monica, California in December 2015. We believe that their exclusion is appropriate to facilitate period-to-period operating performance comparisons.
- (7) There is no income tax impact related to the adjustments made to calculate Non-GAAP net (loss) income because of our available net operating loss carryforwards and the full valuation allowance recorded against our net deferred tax assets for all periods shown.

Item 7. 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 together with our consolidated financial statements and the related notes to those statements included herein. 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 those discussed under “Risk Factors” and elsewhere herein. See “Special Note Regarding Forward-Looking Statements.”

Overview

TrueCar is a leading automotive digital marketplace that enables car buyers to connect to our network of over 16,500 Certified Dealers. We are building the industry’s most personalized and efficient car buying experience as we seek to bring more of the purchasing process online.

We have established a diverse software ecosystem on a common technology infrastructure, powered by proprietary data and analytics. Our company-branded platform 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 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 price offers on actual vehicle inventory, which we refer to as VIN-based offers, from our network of TrueCar Certified Dealers. 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 16,500 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.

Further, our subsidiary, TCDS, provides our TrueCar Trade product, which gives consumers information on the value of their trade-in vehicles and enables them to obtain a guaranteed trade-in price before setting foot in the dealership. This valuation is, in turn, backed by a third-party guarantee to dealers that the vehicles will be repurchased at the indicated price if the dealer does not want to keep them.

Additionally, in December 2018, we acquired DealerScience, which, through TCDS, provides dealers with advanced digital retailing software tools that allow them to calculate accurate monthly payments, expedite vehicle desking, which is the process of presenting and agreeing upon financial terms and financing options, and streamline the consumer’s experience from shopping to showroom.

During the year ended December 31, 2019, we generated revenues of \$353.9 million and recorded a net loss of \$54.9 million.

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.

	Year Ended December 31,		
	2019	2018	2017
Average Monthly Unique Visitors	7,441,251	7,520,734	7,380,838
Units (1)	998,495	1,005,029	952,834
Monetization	\$ 335	\$ 333	\$ 319
Franchise Dealer Count	12,565	12,674	12,142
Independent Dealer Count	4,395	3,655	2,979

(1) We issued full credits of the amount originally invoiced with respect to 21,201, 23,885, and 21,835 units during the years ended December 31, 2019, 2018, and 2017, respectively. As discussed in the description of the units metric below, we have not adjusted the number of units downward to reflect these credited units.

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 decreased 1.1% to approximately 7.4 million for the year ended December 31, 2019 from approximately 7.5 million for the year ended December 31, 2018. The decrease was primarily due to changes in the search algorithms used by popular search engines reducing our organic traffic that started in the fourth quarter of 2018 and continued in 2019.

Units

We define units as the number of automobiles purchased from TrueCar Certified Dealers that are matched to users of TrueCar.com, our TrueCar-branded mobile applications or the car-buying sites and mobile applications 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.

For the year ended December 31, 2019 as compared to December 31, 2018, total units remained fairly flat. The number of units decreased 0.7% to 998,495 for the year ended December 31, 2019 from 1,005,029 for the year ended December 31, 2018.

Monetization

We define monetization as the average transaction revenue per unit, which we calculate by dividing all of our transaction revenue (dealer revenue and OEM incentives revenue) in a given period by the number of units in that period. Our monetization increased slightly by 0.6% to \$335 during the year ended December 31, 2019 from \$333 during December 31, 2018, primarily as a result of growth in revenue from new dealer products, as a result of which no incremental units are generated, offset by a decline in OEM 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 who participate in our Auto Buying Program at the end of a given period. This number is calculated by counting the number of brands of new cars sold at each individual location, or rooftop, regardless of the size of the dealership that owns the rooftop. 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 decreased to 12,565 at December 31, 2019 from 12,674 at December 31, 2018 and increased from 12,142 at December 31, 2017. 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 who participate in our Auto Buying Program 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 increased to 4,395 at December 31, 2019 from 3,655 at December 31, 2018 and 2,979 at December 31, 2017.

Presentation of Financial Statements

Our consolidated financial statements include the accounts of our wholly owned subsidiaries in accordance with FASB ASC 810 — *Consolidation*. Business acquisitions are included in our consolidated financial statements from the date of the acquisition. Our purchase accounting resulted in all assets and liabilities of acquired businesses being recorded at their estimated fair values on the acquisition dates. All intercompany balances and transactions have been eliminated in consolidation.

We report our financial results as one operating segment, with three distinct service offerings: Dealer products and services, OEM incentives, and forecasts, consulting and other. Our operating results are regularly reviewed by our chief operating decision maker on a consolidated basis, principally to make decisions about how we allocate our resources and to measure our consolidated operating performance. Our chief operating decision maker regularly reviews revenue for each of our dealer, OEM incentives and forecasts, consulting and other offerings in order to gain more depth and understanding of the factors driving our business.

Components of Operating Results

Revenues

Our revenues are comprised of dealer revenue, OEM incentives revenue, and forecasts, consulting and other revenue. We recognize transaction revenue for certain of our Auto Buying Program and OEM incentives arrangements at the time introductions and incentives are delivered based upon expected subsequent vehicle sales between the Auto Buying Program user and the dealer.

Dealer. Dealer revenue is comprised of Auto Buying Program revenue as well as revenue from TrueCar Trade and DealerScience.

Auto Buying Program revenue consists of fees paid by dealers participating in our network of TrueCar Certified Dealers. Dealers pay us these fees either on a per-vehicle basis for sales to our users or in the form of a subscription arrangement. Subscription arrangements fall into several types: flat-rate subscriptions, subscriptions subject to downward adjustment based on a minimum number of vehicle sales, which we refer to as guaranteed-sales subscriptions, and subscriptions based on introduction volume, including those subject to downward adjustment based on a minimum number of introductions, which we refer to as guaranteed-introductions subscriptions.

Under flat-rate subscription arrangements, fees are charged at a monthly flat rate regardless of the number of introductions made to users of our platform by the dealer.

Under guaranteed-sales subscription arrangements, fees are charged based on the number of guaranteed sales multiplied by a fixed amount per vehicle. To the extent that the actual number of vehicles sold by the dealers to users of our platform is less than the number of guaranteed sales, we provide a credit to the dealer. If the actual number of vehicles sold exceeds the number of guaranteed sales, we are not entitled to any additional fees. As of January 1, 2019, we no longer offer guaranteed sales subscription arrangements in California, and we transferred all California dealers from this billing method to flat-rate subscription arrangements before that date.

Certain of our subscription arrangements are charged based on volume of introductions provided while other introduction-based subscription arrangements operate under a guaranteed-introductions model. Under guaranteed-introductions subscription arrangements, fees are charged based on a periodically-updated formula that considers, among other things, the introductions anticipated to be provided to the dealer. To the extent that the number of actual introductions is less than the number of guaranteed introductions, we provide a credit to the dealer. If the actual number of introductions provided exceeds the number guaranteed, we are not entitled to any additional fees.

For guaranteed-sales and guaranteed-introductions subscription arrangements, fees are charged based on the lesser of (i) the actual number of sales generated or introductions delivered through our platform during the subscription period multiplied by the contracted price per sale/introduction or (ii) the guaranteed number of sales or introductions multiplied by the contracted price per sale/introduction.

TrueCar Trade revenue consists of dealers who pay monthly subscription fees that vary depending on the level of trade service selected. Depending on their subscription terms, some dealers pay additional transaction fees for each vehicle purchased from a consumer that was introduced via TrueCar Trade.

DealerScience revenue consists of monthly subscription fees paid by dealers for access to the DealerScience products and services. DealerScience provides dealers with advanced digital retailing software tools that allow them to calculate accurate monthly

payments, expedite vehicle desking, which is the process of presenting and agreeing upon financial terms and financing options, and streamline the consumers' experience from shopping to showroom.

OEM Incentives. OEM incentives revenue consists of fees paid by automobile manufacturers, or OEMs, to promote the sale of their vehicles through the offering of additional consumer incentives to members of our affinity group marketing partners. These OEMs pay us a subscription or per-vehicle fee for promotion of the incentive.

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

For a description of our revenue accounting policies, see “*Critical Accounting Policies and Estimates*” below.

Costs and Operating Expenses

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

Sales and Marketing. Sales and marketing expenses consist primarily of television, digital, and radio advertising; media production costs; affinity group partner marketing fees, which also include loan subvention costs where we pay certain affinity group marketing partners a portion of consumers' borrowing costs for car loan products offered by these affinity group marketing partners; common stock warrants issued to USAA; marketing sponsorship programs; and digital customer acquisition. See Part III, Item 13 “Certain Relationships, Related Party and Other Transactions — Strategic Partnerships — United Services Automobile Association” for a description of our arrangements with USAA. In addition, sales and marketing expenses include employee-related expenses for sales, customer support, marketing and public relations employees, including salaries, bonuses, benefits, severance, and stock-based compensation expenses; third-party contractor fees; and facilities costs. Marketing and advertising costs promote our services and are expensed as incurred, except for media production costs, which are expensed the first time the advertisement is aired.

Technology and Development. Technology and development expenses consist primarily of employee-related expenses, including salaries, bonuses, benefits, severance, and stock-based compensation expenses; third-party contractor fees; facilities costs; software costs; and costs associated with our product development, product management, research and analytics, and internal IT functions.

General and Administrative. General and administrative expenses consist primarily of employee-related expenses, including salaries, bonuses, benefits, severance, and stock-based compensation expenses for executive, finance, accounting, legal, and human resources functions. General and administrative expenses also include legal, accounting, and other third-party professional service fees, bad debt, lease exit costs, and facilities costs.

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

Interest Income. Interest income consists of interest earned on our cash and cash equivalents.

Interest Expense. Interest expense primarily consists of interest on our built-to-suit lease financing obligations in years prior to 2019.

Provision for (Benefit from) Income Taxes. We are subject to federal and state income taxes in the United States. We provided a full valuation allowance against our net deferred tax assets at December 31, 2019 and December 31, 2018, as it is more likely than not that some or all of our deferred tax assets will not be realized. As a result of the valuation allowance, our income tax benefit (or expense) is significantly less than the federal statutory rate of 21%. Our provision for income taxes for the year ended December 31, 2019 primarily reflects a tax expense associated with the amortization of tax-deductible goodwill that was not an

available source of income to realize deferred tax assets. Our benefit for income taxes for the year ended December 31, 2018 primarily reflects a decrease in valuation allowance in partial recognition of deferred tax assets associated with 2018 indefinite-lived net operating losses.

We have accumulated federal net operating loss carryforwards of approximately \$415.1 million and state net operating loss carryforwards of approximately \$242.5 million at December 31, 2019. Sections 382 and 383 of the Internal Revenue Code impose substantial restrictions on the use of net operating losses and other tax attributes in the event of a cumulative “ownership change” of a corporation of more than 50% over a three-year period. During 2019, we experienced a cumulative ownership change. This ownership change could have materially impaired the Company’s ability to utilize its net operating losses and tax credits. Upon receipt of certain additional information from investors, the Company will determine the amount of potential limitation. Any decrease in deferred tax assets associated with these tax attributes would be fully offset by a corresponding decrease in our valuation allowance, with no net tax provision impact.

See Note 12 of our consolidated financial statements included herein for more information about our provision for income taxes.

Results of Operations

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

	Year Ended December 31,		
	2019	2018	2017
(in thousands)			
Consolidated Statements of Operations Data:			
Revenues	\$ 353,880	\$ 353,571	\$ 323,149
Costs and operating expenses:			
Cost of revenue (exclusive of depreciation and amortization presented separately below)	33,427	31,154	28,227
Sales and marketing	229,342	213,415	185,397
Technology and development	57,188	61,348	59,070
General and administrative	65,148	54,140	61,646
Depreciation and amortization	25,591	22,677	22,472
Total costs and operating expenses	<u>410,696</u>	<u>382,734</u>	<u>356,812</u>
Loss from operations	(56,816)	(29,163)	(33,663)
Interest income	3,495	3,314	1,260
Interest expense	—	(2,649)	(2,610)
Loss from equity method investment	(1,280)	—	—
Loss before income taxes	(54,601)	(28,498)	(35,013)
Provision for (benefit from) income taxes	289	(177)	(2,164)
Net loss	<u>\$ (54,890)</u>	<u>\$ (28,321)</u>	<u>\$ (32,849)</u>

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

	Year Ended December 31,		
	2019	2018	2017
Revenues	100 %	100 %	100 %
Costs and operating expenses:			
Cost of revenue (exclusive of depreciation and amortization presented separately below)	9	9	9
Sales and marketing	65	60	57
Technology and development	16	17	18
General and administrative	18	15	19
Depreciation and amortization	7	6	7
Loss from operations	(16)	(8)	(10)
Interest income	1	1	*
Interest expense	—	(1)	(1)
Loss from equity method investment	*	—	—
Loss before income taxes	(15)	(8)	(11)
Provision for (benefit from) income taxes	*	*	(1)
Net loss	(16)%	(8)%	(10)%

* Less than 0.5% of revenues

Comparison of Years Ended December 31, 2019, 2018 and 2017

Revenues

	Years Ended December 31,			% Change	
	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
	(dollars in thousands)				
Revenues					
Dealer revenue	\$ 317,965	\$ 304,596	\$ 280,563	4.4 %	8.6 %
OEM incentives revenue	16,569	30,012	23,277	(44.8)%	28.9 %
Forecasts, consulting and other revenue	19,346	18,963	19,309	2.0 %	(1.8)%
Total revenues	<u>\$ 353,880</u>	<u>\$ 353,571</u>	<u>\$ 323,149</u>	<u>0.1 %</u>	<u>9.4 %</u>

Year ended December 31, 2019 compared to year ended December 31, 2018. The increase in our revenues of \$0.3 million, or 0.1%, for 2019 as compared to 2018 primarily reflected the increase in our dealer revenue and forecast, consulting and other revenue. Dealer revenue, OEM incentives revenue, and forecasts, consulting and other revenue comprised 89.9%, 4.7%, and 5.5%, respectively, of revenues for 2019 as compared to 86.1%, 8.5%, and 5.4%, respectively, of revenues for 2018. The increase of \$13.4 million in dealer revenue for the year ended December 31, 2019 reflected a 0.6% increase in monetization, along with increases within newer revenue streams of \$9.2 million primarily due to our Trade and DealerScience products as well as an increase of \$4.2 million due to growth in used car sales in 2019. The decrease of \$13.4 million in OEM incentive revenue was primarily due to the lack of recurring revenue from a large OEM client and softness in our existing clients in 2019. Forecasts, consulting and other revenue for 2019 remained materially consistent as compared to 2018.

Year ended December 31, 2018 compared to year ended December 31, 2017. The increase in our revenues of \$30.4 million, or 9.4%, for 2018 as compared to 2017 primarily reflected the increase in our dealer revenue and OEM incentives revenue. Dealer revenue, OEM incentives revenue, and forecasts, consulting and other revenue comprised 86.1%, 8.5%, and 5.4%, respectively, of revenues for 2018 as compared to 86.8%, 7.2%, and 6.0%, respectively, of revenues for 2017. The increase in transaction revenue (dealer revenue and OEM incentives revenue) for 2018 primarily reflected a 5.5% increase in units and a 4.4% increase in monetization. Forecasts, consulting and other revenue for 2018 remained materially consistent as compared to 2017.

Costs and Operating Expenses

Cost of Revenue (exclusive of depreciation and amortization)

	Years Ended December 31,			% Change	
	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
(dollars in thousands)					
Cost of revenue (exclusive of depreciation and amortization)	\$ 33,427	\$ 31,154	\$ 28,227	7.3%	10.4%
Cost of revenue (exclusive of depreciation and amortization) as a percentage of revenues	9.4%	8.8%	8.7%		

Year ended December 31, 2019 compared to year ended December 31, 2018. The increase in cost of revenue of \$2.3 million, or 7.3%, for 2019 as compared to 2018 was primarily due to a \$1.0 million increase in data and licensing costs, a \$0.8 million increase in employee-related costs, and a \$0.4 million increase in stock-based compensation, offset by a \$0.2 million decrease in hosting fees.

Year ended December 31, 2018 compared to year ended December 31, 2017. The increase in cost of revenue of \$2.9 million, or 10.4%, for 2018 as compared to 2017 was primarily due to a \$1.1 increase in employee-related costs associated with an increase in headcount, a \$1.3 million increase in data and licensing costs, and a \$0.6 million increase in stock-based compensation.

Sales and Marketing Expenses

	Years Ended December 31,			% Change	
	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
(dollars in thousands)					
Sales and marketing expense	\$ 229,342	\$ 213,415	\$ 185,397	7.5%	15.1%
Sales and marketing expense as a percentage of revenues	64.8%	60.4%	57.4%		

Year ended December 31, 2019 compared to year ended December 31, 2018. The increase in sales and marketing expenses of \$15.9 million, or 7.5%, for 2019 as compared to 2018 reflected a \$6.9 million increase in salaries and employee related expenses, a \$5.1 million increase in branded media spend, a \$3.0 million increase in partner marketing and revenue share paid to affinity marketing partners, a \$1.1 increase in facilities costs, a \$0.8 million increase in creative production costs, and a \$0.6 million increase in professional fees for outsourced services. These increases were partially offset by a \$0.6 million decrease in stock-based compensation and a \$0.6 million decrease in conference and travel-related expenses.

Year ended December 31, 2018 compared to year ended December 31, 2017. The increase in sales and marketing expenses of \$28.0 million, or 15.1%, for 2018 as compared to 2017 reflected a \$17.4 million increase in partner marketing and revenue share paid to affinity marketing partners, a \$5.3 million increase in salaries and employee related expenses primarily due to increased headcount, a \$3.6 million increase in stock-based compensation, a \$1.1 million increase in conference and travel-related expenses, a \$0.9 million increase in branded media spend, and a \$0.8 million increase in professional fees for outsourced services. These increases were partially offset by a \$1.4 million decrease in creative production costs.

Technology and Development Expenses

	Years Ended December 31,			% Change	
	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
(dollars in thousands)					
Technology and development expenses	\$ 57,188	\$ 61,348	\$ 59,070	(6.8)%	3.9 %
Technology and development expenses as a percentage of revenues	16.2%	17.4%	18.3%		
Capitalized software costs	\$ 12,418	\$ 15,022	\$ 15,573	(17.3)%	(3.5)%

Year ended December 31, 2019 compared to year ended December 31, 2018. The decrease in technology and development expenses of \$4.2 million, or 6.8%, for 2019 as compared to 2018 is primarily due to a decrease in stock-based compensation of \$2.3 million, a \$0.9 million decrease in employee-related expenses, and a \$0.8 million decrease in professional fees for outsourced services.

Capitalized software costs decreased \$2.6 million for 2019 as compared to 2018 primarily due to a decrease in the amount of purchased software of \$1.9 million.

Year ended December 31, 2018 compared to year ended December 31, 2017. The increase in technology and development expenses of \$2.3 million, or 3.9%, for 2018 as compared to 2017 is primarily due to an increase in stock-based compensation of \$2.5 million and an increase in hosting costs of \$1.2 million. These increases were partially offset by a \$1.6 million decrease in employee-related expenses primarily due to decreased bonus expense.

Capitalized software costs decreased \$0.6 million for 2018 as compared to 2017 primarily due to a decrease in the amount of purchased software of \$0.5 million.

General and Administrative Expenses

	Years Ended December 31,			% Change	
	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
	(dollars in thousands)				
General and administrative expense	\$ 65,148	\$ 54,140	\$ 61,646	20.3%	(12.2)%
General and administrative expense as a percentage of revenues	18.4%	15.3%	19.1%		

Year ended December 31, 2019 compared to year ended December 31, 2018. General and administrative expenses increased \$11.0 million, or 20.3%, for 2019 as compared to 2018. The increase is primarily due to a \$4.8 million increase in employee-related expenses primarily due to \$3.2 million in severance costs associated with the departure of our former chief executive officer in the second quarter of 2019, a \$3.2 million increase in stock-based compensation primarily due to the acceleration of certain equity awards and the extension of the exercise period for certain vested stock options provided to our former chief executive officer, a \$2.2 million increase in costs for consulting and outsourced services, and a \$1.2 million increase in overhead and facilities costs.

Year ended December 31, 2018 compared to year ended December 31, 2017. General and administrative expenses decreased \$7.5 million, or 12.2%, for 2018 as compared to 2017. The decrease is primarily due to a \$4.0 million decrease in legal expenses, a \$3.0 million decrease in employee-related expenses primarily due to decreased bonus expense and lower payroll taxes as a result of lower stock option activity in the current period, and a \$1.8 million decrease in stock-based compensation. The decrease was partially offset by a \$1.7 million increase in costs for consulting and outsourced services.

Depreciation and Amortization Expenses

	Years Ended December 31,			% Change	
	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
	(dollars in thousands)				
Depreciation and amortization expenses	\$ 25,591	\$ 22,677	\$ 22,472	12.9%	0.9%

Year ended December 31, 2019 compared to year ended December 31, 2018. Depreciation and amortization expenses increased \$2.9 million, or 12.9%, for 2019 as compared to 2018. The increase is primarily due to a \$2.4 million increase related to intangible assets acquired from the acquisition of DealerScience in December 2018 and a \$0.6 million net increase associated with the reclassification of certain build-to-suit assets to leasehold improvements upon adoption of the new lease guidance in January 2019.

Year ended December 31, 2018 compared to year ended December 31, 2017. Depreciation and amortization expenses increased \$0.2 million, or 0.9%, for 2018 as compared to 2017.

Interest Income

	Years Ended December 31,			% Change	
	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
	(dollars in thousands)				
Interest income	\$ 3,495	\$ 3,314	\$ 1,260	5.5%	163.0%

Year ended December 31, 2019 compared to year ended December 31, 2018. Interest income increased \$0.2 million, or 5.5%, for 2019 as compared to 2018 primarily due to higher interest rates.

Year ended December 31, 2018 compared to year ended December 31, 2017. Interest income increased \$2.1 million, or 163.0%, for 2018 as compared to 2017 primarily due to increases in average cash and cash equivalents balances and higher interest rates.

Interest Expense

	Years Ended December 31,			% Change	
	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
	(dollars in thousands)				
Interest expense	\$ —	\$ 2,649	\$ 2,610	(100.0)%	1.5%

Year ended December 31, 2019 compared to year ended December 31, 2018. Interest expense decreased \$2.6 million to zero in 2019 as compared to 2018 primarily due to our exit from our San Francisco leased office space as of December 31, 2018, and with the adoption of the new leasing standard and the de-recognition of our lease financing obligation for our Santa Monica leased office space.

Year ended December 31, 2018 compared to year ended December 31, 2017. Interest expense of \$2.6 million in 2018 remained materially consistent as compared to 2017.

Provision for (benefit from) Income Taxes

	Years Ended December 31,			% Change	
	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
	(dollars in thousands)				
Provision for (benefit from) income taxes	\$ 289	\$ (177)	\$ (2,164)	263.3%	91.8%

Years ended December 31, 2019, December 31, 2018 and December 31, 2017. The provision for income taxes for 2019 of \$0.3 million primarily reflects a tax expense associated with the amortization of tax-deductible goodwill that is not an available source of income to realize deferred tax assets. The benefit from income taxes for 2018 of \$0.2 million primarily reflects a decrease in valuation allowance in partial recognition of deferred tax assets associated with 2018 indefinite-lived net operating losses. Our benefit from income taxes for 2017 of \$2.2 million included a \$2.6 million impact from the change in tax law. Of that \$2.6 million impact, \$1.2 million resulted from the re-measurement of our U.S. federal deferred tax assets and liabilities at the tax rate expected to apply when the temporary differences are realized/settled and \$1.4 million resulted from the decrease in valuation allowance associated with the partial recognition of our tax-deductible goodwill amortization as an available source of income to realize certain indefinite-lived deferred tax assets.

Sections 382 and 383 of the Internal Revenue Code impose substantial restrictions on the use of net operating losses and other tax attributes in the event of a cumulative “ownership change” of a corporation of more than 50% over a three-year period. During 2019, we experienced a cumulative ownership change. This ownership change could have materially impaired the Company’s ability to utilize its net operating losses and tax credits. Upon receipt of certain additional information from investors, the Company will determine the amount of potential limitation. Any decrease in deferred tax assets associated with these tax attributes would be fully offset by a corresponding decrease in our valuation allowance, with no net tax provision impact.

Quarterly Key Metrics and Results of Operations

The following tables set forth selected key metrics and unaudited quarterly consolidated statements of comprehensive loss data for each of the quarters indicated. The consolidated financial statements for each of these quarters have been prepared on the same basis as the audited consolidated financial statements included herein and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the consolidated results of operations for these periods. You should read this information together with our consolidated financial statements and related notes included herein. These quarterly operating results are not necessarily indicative of the results for any future period.

	Three Months Ended							
	Dec. 31,	Sept. 30,	Jun. 30,	Mar. 31,	Dec. 31,	Sept. 30,	Jun. 30,	Mar. 31,
	2019	2019	2019	2019	2018	2018	2018	2018
Average Monthly Unique Visitors	7,740,593	7,695,650	7,229,910	7,098,849	6,509,577	8,005,041	7,763,112	7,805,207
Units (1)	248,037	267,821	249,856	232,781	257,017	268,026	250,269	229,717
Monetization	\$ 342	\$ 320	\$ 333	\$ 348	\$ 334	\$ 331	\$ 332	\$ 334
Franchise Dealer Count	12,565	12,711	12,681	12,675	12,674	12,549	12,368	12,205
Independent Dealer Count	4,395	4,242	4,014	3,854	3,655	3,482	3,166	3,006

	Three Months Ended							
	Dec. 31,	Sept. 30,	Jun. 30,	Mar. 31,	Dec. 31,	Sept. 30,	Jun. 30,	Mar. 31,
	2019	2019	2019	2019	2018	2018	2018	2018
(in thousands)								
Revenues:								
Dealer revenue	\$ 80,904	\$ 81,270	\$ 78,977	\$ 76,814	\$ 77,738	\$ 79,250	\$ 75,271	\$ 72,337
OEM incentive revenue	3,842	4,383	4,143	4,201	8,208	9,456	7,927	4,421
Forecasts, consulting, and other revenue	4,922	4,902	4,955	4,567	5,128	4,880	4,652	4,303
Total revenues	89,668	90,555	88,075	85,582	91,074	93,586	87,850	81,061
Costs and operating expenses:								
Cost of revenue (exclusive of depreciation and amortization presented separately below)	7,768	8,391	8,332	8,936	8,213	7,737	7,752	7,452
Sales and marketing	56,410	57,961	60,233	54,738	55,952	57,031	52,014	48,418
Technology and development	12,462	13,027	16,045	15,654	14,715	15,345	15,694	15,594
General and administrative	15,644	13,018	21,382	15,104	13,135	14,030	13,494	13,481
Depreciation and amortization	6,264	6,145	6,767	6,415	5,869	5,992	5,641	5,175
Total costs and expenses	98,548	98,542	112,759	100,847	97,884	100,135	94,595	90,120
Loss from operations	(8,880)	(7,987)	(24,684)	(15,265)	(6,810)	(6,549)	(6,745)	(9,059)
Interest income	673	855	966	1,001	1,072	888	750	604
Interest expense	—	—	—	—	(664)	(662)	(662)	(661)
Loss from equity method investment	(543)	(464)	(273)	—	—	—	—	—
Loss before income taxes	(8,750)	(7,596)	(23,991)	(14,264)	(6,402)	(6,323)	(6,657)	(9,116)
Provision for (benefit from) income taxes	63	56	69	101	(9)	(72)	(35)	(61)
Net loss	\$ (8,813)	\$ (7,652)	\$ (24,060)	\$ (14,365)	\$ (6,393)	\$ (6,251)	\$ (6,622)	\$ (9,055)
Net loss per share:								
Basic and diluted	\$ (0.08)	\$ (0.07)	\$ (0.23)	\$ (0.14)	\$ (0.06)	\$ (0.06)	\$ (0.07)	\$ (0.09)
Other Financial Information (2):								
Adjusted EBITDA	\$ 4,328	\$ 5,851	\$ 3,653	\$ 5,087	\$ 8,743	\$ 10,025	\$ 8,730	\$ 6,012
Non-GAAP net (loss) income	\$ (1,326)	\$ 505	\$ (2,217)	\$ (428)	\$ 3,291	\$ 4,331	\$ 3,212	\$ 841

(1) We issued full credits of the amount originally invoiced with respect to 5,423, 6,100, 3,985, 5,693, 7,121, 4,981, 5,371, and 5,134, units during the three months ended December 31, 2019, September 30, 2019, June 30, 2019, March 31, 2019, December 31, 2018, September 30, 2018, June 30, 2018, and March 31, 2018, respectively. The number of units has not been adjusted downward to reflect units credited.

(2) Adjusted EBITDA and Non-GAAP net (loss) income are not measures of our financial performance under GAAP and should not be considered as alternatives to net income, operating income, or any other measures derived in accordance with GAAP. For definitions of Adjusted EBITDA and Non-GAAP net (loss) income and a reconciliation of net loss to Adjusted EBITDA and Non-GAAP net (loss) income, see “Non-GAAP Financial Measures.”

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

	Three Months Ended							
	Dec. 31, 2019	Sept. 30, 2019	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018	Sept. 30, 2018	Jun. 30, 2018	Mar. 31, 2018
(in thousands)								
Reconciliation of Net Loss to Adjusted EBITDA								
Net loss	\$ (8,813)	\$ (7,652)	\$ (24,060)	\$ (14,365)	\$ (6,393)	\$ (6,251)	\$ (6,622)	\$ (9,055)
Non-GAAP Adjustments:								
Interest income	(673)	(855)	(966)	(1,001)	(1,072)	(888)	(750)	(604)
Interest expense	—	—	—	—	664	662	662	661
Depreciation and amortization	6,264	6,145	6,767	6,415	5,869	5,992	5,641	5,175
Stock-based compensation (1)	6,592	7,191	15,556	8,635	8,903	10,247	8,972	9,097
Share of net loss of equity method investment	543	464	273	—	—	—	—	—
Certain litigation costs (2)	139	157	351	928	161	335	862	799
Executive departure costs (3)	138	270	4,681	—	—	—	—	—
Restructuring charges (4)	—	—	—	3,280	—	—	—	—
Transaction costs (5)	—	—	832	1,094	620	—	—	—
Change in fair value of contingent consideration	75	75	150	—	—	—	—	—
Provision for (benefit from) income taxes	63	56	69	101	(9)	(72)	(35)	(61)
Adjusted EBITDA (6)	<u>\$ 4,328</u>	<u>\$ 5,851</u>	<u>\$ 3,653</u>	<u>\$ 5,087</u>	<u>\$ 8,743</u>	<u>\$ 10,025</u>	<u>\$ 8,730</u>	<u>\$ 6,012</u>

- (1) The excluded amounts include stock-based compensation of \$7.2 million incurred in the second quarter of 2019 associated with the acceleration of certain equity awards and the extension of the exercise period for certain vested stock options related to the departures of certain executives, including our former chief executive officer.
- (2) 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.
- (3) The excluded amounts include \$4.6 million in executive severance costs, as well as related recruiting fees of \$0.5 million, associated with the separation of our former chief executive officer and the termination of executive-level employees in connection with the change in chief executive officer in the second quarter of 2019. We believe excluding the impact of these terminations and the associated chief executive officer recruiting fees is consistent with our use of these non-GAAP measures as we do not believe they are a useful indicator of our ongoing operating results.
- (4) The excluded amounts include \$3.3 million in charges associated with a restructuring plan undertaken in the first quarter of 2019 to improve efficiency and reduce expenses. We believe excluding the impact of these charges is consistent with our use of these non-GAAP measures as we do not believe they are a useful indicator of our ongoing operating results.
- (5) The excluded amounts represent external legal, accounting, consulting and other third-party fees and costs we incurred in connection with the evaluation and negotiation of potential acquisition transactions. These expenses are included in general and administrative expenses in our consolidated statements of comprehensive loss. We consider these fees and costs, which are associated with potential merger and acquisition transactions outside the normal course of our operations, to be unrelated to our underlying results of operations and believe that their exclusion provides investors with a more complete understanding of the factors and trends affecting our business operations.
- (6) Adjusted EBITDA is not a measure of our financial performance under GAAP and should not be considered as an alternative to net income, operating income or any other measures derived in accordance with GAAP. For a definition of Adjusted EBITDA, see “Non-GAAP Financial Measures.”

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

	Three Months Ended							
	Dec. 31,	Sept. 30,	Jun. 30,	Mar. 31,	Dec. 31,	Sept. 30,	Jun. 30,	Mar. 31,
	2019	2019	2019	2019	2018	2018	2018	2018
	(in thousands)							
Reconciliation of Net Loss to Non-GAAP Net (Loss) Income								
Net loss	\$ (8,813)	\$ (7,652)	\$ (24,060)	\$ (14,365)	\$ (6,393)	\$ (6,251)	\$ (6,622)	\$ (9,055)
Non-GAAP Adjustments:								
Stock-based compensation (1)	6,592	7,191	15,556	8,635	8,903	10,247	8,972	9,097
Loss from equity method investment	543	464	273	—	—	—	—	—
Certain litigation costs (2)	139	157	351	928	161	335	862	799
Executive departure costs (3)	138	270	4,681	—	—	—	—	—
Restructuring charges (4)	—	—	—	3,280	—	—	—	—
Transaction costs (5)	—	—	832	1,094	620	—	—	—
Change in the fair value of contingent consideration	75	75	150	—	—	—	—	—
Non-GAAP net (loss) income (6) (7)	\$ (1,326)	\$ 505	\$ (2,217)	\$ (428)	\$ 3,291	\$ 4,331	\$ 3,212	\$ 841

- (1) The excluded amounts include stock-based compensation of \$7.2 million incurred in the second quarter of 2019 associated with the acceleration of certain equity awards and the extension of the exercise period for certain vested stock options related to the departures of certain executives, including our former chief executive officer.
- (2) 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.
- (3) The excluded amounts include \$4.6 million in executive severance costs, as well as related recruiting fees of \$0.5 million, associated with the separation of our former chief executive officer and the termination of executive-level employees in connection with the change in chief executive officer in the second quarter of 2019. We believe excluding the impact of these terminations and the associated chief executive officer recruiting fees is consistent with our use of these non-GAAP measures as we do not believe they are a useful indicator of our ongoing operating results.
- (4) The excluded amounts include \$3.3 million in charges associated with a restructuring plan undertaken in the first quarter of 2019 to improve efficiency and reduce expenses. We believe excluding the impact of these charges is consistent with our use of these non-GAAP measures as we do not believe they are a useful indicator of our ongoing operating results.
- (5) The excluded amounts represent external legal, accounting, consulting and other third-party fees and costs we incurred in connection with the evaluation and negotiation of potential acquisition transactions. These expenses are included in general and administrative expenses in our consolidated statements of comprehensive loss. We consider these fees and costs, which are associated with potential merger and acquisition transactions outside the normal course of our operations, to be unrelated to our underlying results of operations and believe that their exclusion provides investors with a more complete understanding of the factors and trends affecting our business operations.
- (6) There is no income tax impact related to the adjustments made to calculate Non-GAAP net (loss) income because of our available net operating loss carryforwards and the full valuation allowance recorded against our net deferred tax assets for all periods shown.
- (7) Non-GAAP net (loss) income is not a measure of our financial performance under GAAP and should not be considered as an alternative to net loss or any other measures derived in accordance with GAAP. For a definition of Non-GAAP net (loss) income see “Non-GAAP Financial Measures.”

Liquidity and Capital Resources

At December 31, 2019, our principal sources of liquidity were cash and cash equivalents totaling \$181.5 million.

We have incurred cumulative losses of \$432.1 million from our operations through December 31, 2019, and expect to incur additional losses in the future. We believe that our existing sources of liquidity will be sufficient to fund our operations for at least the next 12 months. However, our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities, the timing and extent of our spending to support our technology and development efforts and costs related to acquisitions to further expand our product offerings. To the extent that existing cash and cash equivalents and cash from operations are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

Credit Facility

We are party to a credit facility with Silicon Valley Bank that provides for advances of up to \$35.0 million. This credit facility provides a \$10.0 million subfacility for the issuance of letters of credit and contains an increase option permitting us, subject to the 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 has a three-year term and matures on February 18, 2021. No amounts were outstanding at December 31, 2019. The amount available under the credit facility at December 31, 2019 was \$31.9 million, reduced for the letters of credit issued and outstanding under the subfacility of \$3.1 million. See Note 8 of our consolidated financial statements herein for more information about our amended credit facility.

Cash Flows

The following table summarizes our cash flows:

	Year Ended December 31,		
	2019	2018	2017
	(in thousands)		
Consolidated Cash Flow Data:			
Net cash provided by operating activities	\$ 20,344	\$ 24,833	\$ 22,118
Net cash used in investing activities	(34,458)	(43,190)	(19,809)
Net cash (used in) provided by financing activities	(480)	16,723	87,732
Net (decrease) increase in cash and cash equivalents	<u>\$ (14,594)</u>	<u>\$ (1,634)</u>	<u>\$ 90,041</u>

Operating Activities

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

Cash provided by operating activities in 2019 was \$20.3 million. This was primarily due to our net loss of \$54.9 million, which, adjusted for non-cash items, including stock-based compensation expense of \$38.0 million, depreciation and amortization expense of \$25.6 million, and bad debt expense of \$1.4 million, resulted in \$19.0 million in cash from operations. Cash from operating activities was also affected by a \$1.4 million increase from changes in operating assets and liabilities, which primarily reflected an increase of \$1.4 million in accounts receivable primarily due to the timing of cash collections, a decrease of \$1.5 million in accrued employee expenses primarily related to a decrease in accrued bonus, an increase of \$0.7 million in prepaid expenses primarily due to an increase in prepaid marketing costs and an increase in other assets of \$2.5 million primarily related to a long-term prepaid expense. These were partially offset by an increase of \$4.9 million in accounts payable primarily due to an increase in marketing fees payable to our affinity group partners and advertisers.

Cash provided by operating activities in 2018 was \$24.8 million. This was primarily due to our net loss of \$28.3 million, which, adjusted for non-cash items, including stock-based compensation expense of \$37.2 million, depreciation and amortization expense of \$22.7 million, and bad debt expense of \$1.7 million, resulted in \$33.6 million in cash from operations. Cash from operating activities was also affected by a \$8.8 million decrease from changes in operating assets and liabilities, which primarily reflected an

increase of \$10.0 million in accounts receivable primarily related to increased revenues, a decrease of \$2.2 million in accrued employee expenses primarily related to a decrease in accrued bonus, an increase of \$2.0 million in prepaid expenses primarily due to an increase in prepaid marketing costs, and an increase in other assets of \$1.6 million primarily related to a long-term prepaid expense. These were partially offset by an increase of \$7.5 million in accounts payable primarily due to an increase in marketing fees payable to our affinity group partners and advertisers.

Cash provided by operating activities in 2017 was \$22.1 million. This was primarily due to our net loss of \$32.8 million, which, adjusted for non-cash items, including stock-based compensation expense of \$32.2 million, depreciation and amortization expense of \$22.4 million, deferred income tax benefit of \$2.2 million and bad debt expense of \$1.4 million, resulted in \$21.6 million in cash from operations. Cash from operating activities was also affected by a \$0.6 million increase from changes in operating assets and liabilities, which primarily reflected an increase of \$4.8 million in accounts payable primarily due to increased marketing fees, an increase of \$1.1 million in other liabilities, a decrease of \$0.8 million in other current assets, and a decrease of \$0.6 million in prepaid expenses. These were partially offset by an increase of \$3.7 million in accounts receivable primarily related to increased revenues, and a \$2.7 million decrease in accrued employee expenses primarily due to a decrease in accrued bonus.

Investing Activities

Our investing activities consist primarily of cash paid for equity method investment, the acquisition of DealerScience and capital expenditures for capitalized software development costs and property and equipment.

Cash used in investing activities of \$34.5 million for 2019 resulted primarily from a \$23.2 million equity method investment in Accu-Trade as well as \$11.3 million of purchases of property and equipment, consisting of \$10.6 million of investments in software, \$0.2 million of investments in furniture, leasehold, and facility improvements, and \$0.5 million of investment in computer hardware.

Cash used in investing activities of \$43.2 million for 2018 resulted primarily from \$26.9 million of cash paid for the acquisition of DealerScience and \$17.1 million of purchases of property and equipment, consisting of \$13.5 million of investments in software, \$2.0 million of investments in furniture, leasehold, and facility improvements, and \$1.6 million of investment in computer hardware.

Cash used in investing activities of \$19.8 million for 2017 resulted primarily from \$13.5 million of investments in software, \$3.9 million of investments in furniture, leasehold, and facility improvements, and \$2.4 million of investment in computer hardware.

Financing Activities

Cash used in financing activities of \$0.5 million for 2019 reflects \$2.9 million of proceeds from the exercise of stock options, net of taxes paid for the net share settlement of certain equity awards of \$3.3 million.

Cash provided by financing activities of \$16.7 million for 2018 reflects \$19.8 million of proceeds from the exercise of stock options, net of taxes paid for the net share settlement of certain equity awards of \$3.0 million.

Cash provided by financing activities of \$87.7 million for 2017 primarily reflects \$70.3 million of proceeds from the exercise of stock options, net of taxes paid for the net share settlement of certain equity awards, and \$17.4 million of proceeds from our public offering of common stock that closed in May 2017, net of underwriting discounts and commissions and offering costs.

Contractual Obligations and Known Future Cash Requirements**Contractual Obligations**

Set forth below is information concerning our known contractual obligations at December 31, 2019:

	Total	Less Than 1 Year	1 - 3 Years (in thousands)	3 - 5 Years	More Than 5 Years
Lease obligations (1)	\$ 52,473	\$ 7,762	\$ 14,521	\$ 15,488	\$ 14,702
Purchase obligations (2)	19,519	7,568	10,173	1,578	200
Contingent Consideration (3)	4,777	2,441	2,336	—	—
Total	<u>\$ 76,769</u>	<u>\$ 17,771</u>	<u>\$ 27,030</u>	<u>\$ 17,066</u>	<u>\$ 14,902</u>

- (1) Lease obligations consist of various leases for office space and have not been reduced by minimum non-cancelable sublease rentals aggregating \$1.3 million.
- (2) Purchase obligations include long-term agreements to purchase data information, software related licenses and support services, and other obligations that are enforceable and legally binding as of December 31, 2019. Purchase obligations exclude agreements that are cancelable without penalty.
- (3) Contingent consideration as part of the DealerScience acquisition relates to the estimated earnout payments presented at their fair value. Estimated future, undiscounted earnout payments for DealerScience could range as high as \$5 million as of December 31, 2019.

Contingent obligations arising from unrecognized tax benefits are not included in the contractual obligations because it is expected that the unrecognized benefits would only result in an insignificant amount of cash payments.

Off-Balance Sheet Arrangements

We do not engage in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, as part of our ongoing business. Accordingly, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions on an ongoing basis and that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe that the assumptions and estimates associated with revenue recognition, sales allowances and allowances for doubtful accounts, the fair value of assets and liabilities assumed in business combinations, the recoverability of goodwill and long-lived assets, valuation allowances with respect to deferred tax assets, the expensing and capitalization of software and website development costs, and the valuation and assumptions underlying stock-based compensation and other equity instruments have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates. For further information on all of our significant accounting policies, see Note 2 of our consolidated financial statements included herein.

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 pre-existing revenue recognition guidance under GAAP. We 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.

We recognize revenue when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. We determine 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.

Deferred revenue is recognized on the accompanying consolidated balance sheets when payments are received in advance of us meeting all of the revenue recognition criteria described above.

Dealer Revenue

Dealer revenue is comprised of Auto Buying Program revenue as well as revenue from TrueCar Trade, DealerSync, and DealerScience.

Our Auto Buying Program revenue includes 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 us fees in one of three ways: on a per-vehicle basis for sales to Auto Buying Program users, on a per-introduction basis for sales to Auto Buying Program users or under a subscription arrangement. Contracts are cancellable by the Dealer or us at any time. We do not provide significant dealer financing terms.

Our 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 we recognize revenue.

When a user decides to proceed with a vehicle purchase through us, the user provides his or her name, address, e-mail, and phone number during the process of obtaining price offers on actual vehicle inventory, which gives us the identity and source of a TrueCar introduction provided to a specific Dealer before an actual sale occurs. After a sale occurs, we receive information regarding the sale, including the identity of the purchaser, through the Dealer Management System used by the Dealer that made the sale. We also receive 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 we use 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.

Pay-Per-Sale. Under the old revenue standard, in years prior to 2018, we 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, we use the expected value method based primarily on an analysis of the expected number of sales resulting from in-period introductions. This estimate is based on historical introductions to vehicle sale close rate trends as well as actual sales measured in period. Under the contractual terms and conditions of arrangements with TrueCar Certified Dealers that pay on a per-vehicle-sale basis, the Dealer is not obligated to pay until a vehicle sale has occurred between the Auto Buying Program user and the Dealer, for which the introduction was provided by us to the Dealer. 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 upon control transfer of the delivered introduction, 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.

We also recognize 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 us 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, we recognize 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 us to the Dealer or sales made to users of our 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 our platform is less than the number of guaranteed sales, we provide a credit to the Dealer. If the actual number of vehicles sold exceeds the number of guaranteed sales, we are not entitled to any additional fees. As of January 1, 2019, we no longer offer guaranteed sales subscription arrangements in California, and we transferred all California dealers from this billing method to flat-rate subscription arrangements before that date.

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, we provide a credit to the Dealer. If the actual number of introductions provided exceeds the number guaranteed, we are not entitled to any additional fees.

TrueCar Trade. TrueCar Trade provides consumers with information on the value of their trade-in vehicles, while providing Dealers with introductions to these in-market consumers so that those Dealers have the opportunity to buy trade-in vehicles from those consumers. Dealers pay monthly subscription fees for access to TrueCar Trade that vary depending on the level of service selected. Depending on their subscription terms, some dealers pay additional transaction fees for each vehicle purchased from a consumer that was introduced through TrueCar Trade. Subscription fees are recognized on a monthly basis, while transaction fees for vehicles purchased by a Dealer are estimated and recognized at the point in time the introduction between the dealer and consumer occurs.

DealerScience and DealerSync. DealerScience and DealerSync revenues consist of monthly subscription fees paid by dealers for access to DealerScience’s and DealerSync’s products and services. DealerScience provides dealers with advanced digital retailing software tools that allow them to calculate accurate monthly payments, expedite vehicle desking, which is the process of presenting and agreeing upon financial terms and financing options, and streamline the consumers’ experience from shopping to showroom. DealerSync products and services include a dealer website creation and management service and a software platform that assists dealers in managing, marketing and growing their business. Dealers pay monthly subscription fees for access to the software. Subscription fees are recognized on a monthly basis.

OEM Incentives Revenue

We enter into arrangements with OEMs to promote the sale of their vehicles primarily through the offering of additional consumer incentives. These manufacturers pay us a per-vehicle fee 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, we 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, our performance obligation to OEMs is to deliver incentive offers to consumers. Control transfers upon delivery of incentive offers, which is the point at which we recognize revenue. We recognize revenue for the amount that we estimate we will be able to earn. To formulate this estimate, we use the expected value method based primarily on an analysis of the expected number of sales resulting from in-period incentive offers delivered. This estimate is based on historical incentive offers to vehicle sales close rate trends as well as delivered incentive offers resulting in actual sales measured in period. As a result, revenue recognition occurs earlier than billing as an estimate of the variable consideration to be received upon control transfer, resulting in a contract asset.

Forecasts, Consulting and Other Revenues

We generate revenues 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, we first determine 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.

Allowances for Doubtful Accounts

We determine our allowance for doubtful accounts based on our historical write-off experience and specific circumstances that make it likely that recovery will not occur. We review the allowance for doubtful accounts periodically and assesses the aging of account balances, with an emphasis on those that are past due over ninety days. Account balances are charged off against the allowance when we determine that it is probable the receivable will not be recovered.

Business Combinations

The results of businesses acquired in a business combination are included in our consolidated financial statements from the date of the acquisition. Purchase accounting results in assets and liabilities of an acquired business being recorded at their estimated fair values on the acquisition date. Any excess consideration over the fair value of assets acquired and liabilities assumed is recognized as goodwill.

We perform valuations of assets acquired and liabilities assumed for an acquisition and allocate the purchase price to the respective net tangible and intangible assets. Determining the fair value of assets acquired and liabilities assumed requires management to use significant judgment and estimates including the selection of valuation methodologies, estimates of future revenues and cash flows, and selection of discount rates. We engage the assistance of valuation specialists in arriving at fair value measurements in connection with fair values of assets and liabilities assumed in a business combination.

Transaction costs associated with business combinations are expensed as incurred, and are included in general and administrative expenses in our consolidated statement of comprehensive loss.

Goodwill

Goodwill represents the excess of the aggregate purchase price paid over the fair value of the identifiable assets and liabilities acquired in our business combinations. Goodwill is not amortized and is tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Events or changes in circumstances that could trigger an impairment review include a significant adverse change in business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends, significant underperformance relative to expected historical or projected future results of operations, or a decline in our stock price and market capitalization. During 2019, our stock price experienced high volatility ranging from a high of \$10.39 to a low of \$3.01 per share, causing a decline in our enterprise market capitalization. If our stock price declines further, material write-downs or impairment charges may be required in the future. The magnitude and timing of those charges would be dependent on the severity and duration of the decline and cannot be determined at this time. Any material non-cash impairment charges related to goodwill would have a material adverse effect on our results of operations and financial condition.

During 2018, we early adopted ASC 2017-04, which simplifies the goodwill impairment test. 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 book value exceeds the fair value.

We have the option to assess goodwill for possible impairment by performing a qualitative analysis to determine it is more likely than not that the fair value of a reporting unit is less than its carrying amount or perform the first step in an impairment test.

The first step involves comparing the estimated fair value of a reporting unit with its respective book value, including goodwill. If the estimated fair value exceeds book value, goodwill is considered not to be impaired and no additional steps are necessary. If, however, the fair value of the reporting unit is less than book value, an impairment loss is recognized in an amount equal to the excess.

We test for goodwill impairment annually at December 31st. During the years ended December 31, 2019, 2018, and 2017, there were no impairment charges recorded on our goodwill. We elected to conduct a quantitative goodwill assessment at December 31, 2019. The fair value exceeded the carrying value and, accordingly, we concluded that there was no impairment of goodwill.

Impairment of Long-Lived Assets

We assess the impairment of long-lived assets, consisting primarily of property and equipment and intangible assets resulting from business combinations, whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured first by a comparison of the carrying amount of an asset to the future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. When measuring the recoverability of these assets, we make assumptions regarding our estimated future cash flows expected to be generated by the assets. If our estimates or related assumptions change in the future, we may be required to impair these assets. We have not recognized any impairment of long-lived assets to date.

Software and Website Development Costs

Costs incurred in the preliminary project and post-implementation stages of development and maintenance of our platform are expensed as incurred. Certain costs incurred in the application development stage of a new product or projects to provide significant additional functionality to existing products are capitalized if certain criteria are met. Maintenance and enhancement costs are typically expensed as incurred. Such costs are amortized on a straight-line basis over the estimated useful lives of the related assets, which are estimated to be three years. Amortization expense is included in depreciation and amortization in the statements of comprehensive loss.

Leases

On January 1, 2019, we adopted the new lease accounting standard using the modified retrospective transition method applied at the effective date of the standard. Results for reporting periods beginning after January 1, 2019 are presented under the new leasing standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting. We have elected to utilize the package of practical expedients at the time of adoption, which allows us to (1) not reassess whether any expired or existing contracts are or contain leases, (2) not reassess the lease classification of any expired or existing leases, and (3) not reassess initial direct costs for any existing leases. We also have elected to utilize the short-term lease recognition exemption and, for those leases that qualified, we did not recognize right-of-use ("ROU") assets or lease liabilities.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We estimate the incremental borrowing rate to reflect the profile of secured borrowing over the expected term of the leases based on the information available at the later of the initial date of adoption or the lease commencement date.

The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Sublease rental income is recognized as a reduction to the related lease expense on a straight-line basis over the sublease term. See Note 3 to our consolidated financial statements included herein.

Stock-Based Compensation

We recognize stock-based compensation expense for stock-based compensation awards granted to our employees, consultants, and other service providers that can be settled in shares of our common stock. We estimate the grant-date fair value of option grants, and the resulting stock-based compensation, using the Black-Scholes option-pricing model. For restricted stock units, we use the market value of our common stock on the date of grant to determine the fair value of the award. Stock-based compensation for employee awards is recognized on a straight-line basis over the requisite period, except for performance-based awards, which are recognized using the graded-vesting model.

Determining the fair value of awards using the Black-Scholes option-pricing model requires the use of highly subjective assumptions, including the expected term and the price volatility of the underlying stock, which are key inputs in the determination of the fair value of stock-based awards. These assumptions include:

- *Risk-free interest rate.* The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant with maturities approximately equal to the expected term of the options;
- *Expected term.* We use the simplified method under the SEC’s Staff Accounting Bulletin No. 107, *Share-Based Payment*, to calculate expected term for plain-vanilla share options. For performance-based option awards and out-of-the-money option grants, we determine the expected term based upon historical exercise and post-vesting cancellations, adjusted for expected future exercise behavior;
- *Expected volatility.* As we do not have a significant trading history for our common stock, expected volatility is derived from the historical stock volatilities of several comparable publicly listed peers over a period approximately equal to the expected term of the options. When making the selections of our comparable industry peers to be used in the volatility calculation, we considered potential peers’ sizes and operational and economic similarities to our principal business operations; and
- *Dividend yield.* The expected dividend yield is assumed to be zero as we have never paid dividends and have no current plans to pay any dividends on our common stock.

In 2016, the FASB issued guidance to simplify several aspects of the accounting for share-based payment award transactions, including accounting for forfeitures. Companies have the choice to elect as an accounting policy whether to continue to estimate forfeitures or recognize forfeitures when they occur. As part of our early adoption of this guidance in 2016, we elected to account for forfeitures as they occur. Before 2016, in addition to the assumptions used in the Black-Scholes option-pricing model, we estimated a forfeiture rate to calculate the stock-based compensation for our awards. We evaluated the appropriateness of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover, and other factors.

We will continue to use judgment in evaluating the expected volatility and expected terms utilized for our stock-based compensation calculations on a prospective basis. As we continue to accumulate additional data related to our common stock, we may refine the estimates of our expected volatility and expected term, which could materially impact our future stock-based compensation expense.

At December 31, 2019 total remaining stock-based compensation expense for unvested awards was \$56.3 million, which is expected to be recognized over a weighted-average period of 2.6 years.

Since our initial public offering, we determine the fair value of our common stock based on the closing price as quoted on the Nasdaq Global Select Market of our common stock on the grant date.

Income Taxes

We use the liability method of accounting for income taxes, under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to be in effect when such assets and liabilities are recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the year that includes the enactment date. We determine deferred tax assets including net operating losses and liabilities, based on temporary differences between the book and tax bases of assets and liabilities. A valuation allowance is established to reduce net deferred tax assets to amounts that are more likely than not to be realized. We consider all available evidence, both positive and negative, in assessing the need for a valuation allowance. We have a full valuation allowance, and have concluded, based on the weight of all available evidence, that it is more likely than not that our net deferred tax assets will not be realized, primarily due to our historical net operating losses.

We use a two-step approach for evaluating uncertain tax positions. Step one, recognition, requires us to determine if the weight of available evidence indicates that a tax position is more likely than not to be sustained upon audit, including resolution of related appeals or litigation processes, if any. If a tax position is not considered “more likely than not” to be sustained, no benefits of the position are recognized. If we determine that a position is “more likely than not” to be sustained, then we proceed to step two, measurement, which is based on the largest amount of benefit which is more likely than not to be realized on effective settlement. This process involves estimating our actual current tax exposure, including assessing the risks associated with tax audits, together with assessing temporary differences resulting from the different treatment of items for tax and financial reporting purposes. If actual results differ from our estimates, our net operating loss and credit carryforwards could be materially impacted.

Recent Accounting Pronouncements

See Note 2 to our consolidated financial statements included herein.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the risk of loss that may affect our financial position due to adverse changes in financial market prices and rates. We do not believe that there is any material market risk exposure that would require disclosure under this Item 7A.

Interest Rate Risk

We had cash and cash equivalents of \$181.5 million at December 31, 2019, which consist entirely of bank deposits and short-term money market funds. These interest-earning instruments carry a degree of interest rate risk. To date, fluctuations in interest income have not been significant.

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

To the extent we borrow funds under our credit facility, we would be subject to fluctuations in interest rates. See Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources.” As of December 31, 2019, we had no borrowings under the credit facility.

We believe that we do not have a material exposure to changes in fair value as a result of changes in interest rates.

Inflation Risk

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

Foreign Currency Exchange Risk

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

Item 8. Financial Statements and Supplementary Data

The information required by this Item 8 appears in a separate section of this annual report on Form 10-K beginning on page F-1 and is incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The phrase “disclosure controls and procedures” refers to controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act, such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to our management, including our interim chief executive officer, or CEO, and chief financial officer, or CFO, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our CEO and CFO, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of December 31, 2019, the end of the period covered by this Annual Report on Form 10-K. Based on such evaluation, our CEO and CFO have concluded that as of December 31, 2019, our disclosure controls and procedures were designed at a reasonable assurance level and were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated

and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles. Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria described in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that, as of December 31, 2019, our internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2019 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report that is included herein.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in management’s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) under the Exchange Act during the fourth quarter of 2019 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

As of April 1, 2019, we implemented a new enterprise resource planning (“ERP”) system, by transitioning certain of our operations, including the general ledger, to the new ERP system. We have modified our existing controls infrastructure, as well as added other processes and internal controls, to adapt to our new ERP system and to take advantage of the increased functionality of the new system.

Limitations on Effectiveness of Disclosure Controls and Procedures and Internal Controls over Financial Reporting

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item 10 is incorporated by reference to our definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of December 31, 2019.

Our board of directors has adopted a Code of Business Conduct and Ethics applicable to all officers, directors and employees, which is available on our website (ir.truecar.com) under “Corporate Governance – Documents and Charters.” We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding amendment to, or waiver of, a provision of our Code of Business Conduct and Ethics by posting such information on the website address and location specified above.

Item 11. Executive Compensation

The information required by this Item 11 is incorporated by reference to our definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of December 31, 2019.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item 12 is incorporated by reference to our definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of December 31, 2019.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item 13 is incorporated by reference to our definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of December 31, 2019.

Item 14. Principal Accounting Fees and Services

The information required by this Item 14 is incorporated by reference to our definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of December 31, 2019.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. Financial Statements:

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Consolidated Statements of Comprehensive Loss for each of the years in the three-year period ended December 31, 2019	F-4
Consolidated Statements of Stockholders Equity for each of the years in the three-year period ended December 31, 2019	F-5
Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2019	F-6
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2. Financial Statements Schedule

All schedules have been omitted because they are not required, not applicable, not present in amounts sufficient to require submission of the schedule, or the required information is otherwise included in our consolidated financial statements and related notes.

3. Exhibits

The following exhibits are filed as part of, or are incorporated by reference in, this Annual Report on Form 10-K:

Exhibit	Exhibit Title	Filed Herewith	Incorporated by Reference	Form	Exhibit No.	Date Filed
2.1*	Membership Interest Purchase Agreement, dated December 7, 2018, by and among TrueCar Dealer Solutions, Inc., DealerScience, LLC, Andrew Gordon and the Registrant.		X	8-K	2.1	December 7, 2018
2.2*	Membership Interest Purchase Agreement, dated February 8, 2019, by and among the Registrant, Accu-Trade, LLC, R.M. Hollenshead Auto Sales & Leasing, Inc., Robert M. Hollenshead and Jeff Zamora.		X	8-K	2.1	February 14, 2019
3.1	Amended and Restated Certificate of Incorporation of the Registrant.		X	S-1	3.2	May 5, 2014
3.2	Amended and Restated Bylaws of the Registrant.		X	S-1	3.4	May 5, 2014
4.1	Specimen Common Stock Certificate of the Registrant.		X	S-1	4.2	May 5, 2014
4.2	Warrant to Purchase Shares of Common Stock, dated May 1, 2014, by and between the Registrant and the United Services Automobile Association.		X	S-1	4.16	May 5, 2014
4.3	Description of Securities.	X				
10.1#	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers.		X	S-1	10.1	April 4, 2014
10.2#	2014 Equity Incentive Plan and forms of agreements thereunder.		X	S-1	10.4	May 15, 2014

Exhibit	Exhibit Title	Filed Herewith	Incorp- orated by Reference	Form	Exhibit No.	Date Filed
10.3	Clock Tower Building Office Lease, dated May 10, 2010, by and between the Registrant and Clock Tower, LLC, as amended by the Amendment to Lease Re Additional Space and Term Extension dated November 20, 2010 and the Second Amendment to Lease, dated September 19, 2013, by and between the Registrant and SaMo Clock Tower, LLC (successor in interest to Clock Tower, LLC).		X	S-1	10.14	April 4, 2014
10.4	Office Lease, dated October 15, 2010, by and between the Registrant and Douglas Emmett 1995, LLC.		X	S-1	10.15	April 4, 2014
10.5	Second Amendment, dated February 11, 2015, to Office Lease, dated October 15, 2010, by and between the Registrant and Douglas Emmett 1995, LLC.		X	10-K	10.18	March 12, 2015
10.6	1540 Second Street Office Lease, dated September 30, 2013, by and between the Registrant and RBE 1540 Second Street LLC.		X	S-1	10.16	April 4, 2014
10.7	1401 Ocean Avenue Office Lease Agreement, dated July 10, 2014, by and between the Registrant and Mani Brothers Portofino Plaza (DE), LLC.		X	10-Q	10.5	August 14, 2014
10.8	Office Lease Agreement, dated May 3, 2016, by and between the Registrant and Hill Country Texas Galleria, LLC.		X	10-Q	10.1	August 9, 2016
10.9	Third Amended & Restated Loan and Security Agreement, dated February 18, 2015, by and among the Registrant, TrueCar.com, Inc., ALG, Inc. and Silicon Valley Bank.		X	10-K	10.22	March 12, 2015
10.10	First Amendment to Third Amended & Restated Loan and Security Agreement, dated February 28, 2018, by and among the Registrant, TrueCar.com, Inc., ALG, Inc. and Silicon Valley Bank.		X	10-K	10.15	March 1, 2018
10.11	Second Amendment to Third Amended & Restated Loan and Security Agreement, dated December 6, 2018, by and between the Registrant, TrueCar Dealer Solutions, Inc., ALG, Inc. and Silicon Valley Bank.		X	10-K	10.11	March 1, 2019
10.12#	Executive Incentive Compensation Plan.		X	S-1	10.23	May 5, 2014
10.13#	2015 Inducement Equity Incentive Plan.		X	8-K	10.1	December 16, 2015
10.14#	2015 Inducement Equity Incentive Plan - Form of Stock Option Agreement.		X	8-K	10.2	December 16, 2015
10.15#	Form of Performance Unit Award Agreement under the 2014 Equity Incentive Plan.		X	8-K	10.1	March 21, 2019
10.16#	Employment Agreement, dated February 28, 2017, by and between the Registrant and Michael Darrow.		X	10-K	10.28	March 1, 2018
10.17#	Employment Agreement, dated May 24, 2019, by and between the Registrant and Noel B. Watson.		X	10-Q	10.3	August 9, 2019
10.18#	Employment Agreement, dated January 25, 2017, by and between the Registrant and Jeffrey Swart.		X	10-K	10.36	March 1, 2017
10.19#	Employment Agreement, dated as of July 15, 2019, by and between the Registrant and Simon Smith.		X	10-Q	10.5	August 9, 2019

Exhibit	Exhibit Title	Filed Herewith	Incorporated by Reference	Form	Exhibit No.	Date Filed
10.20#	Employment Agreement, dated November 16, 2015, by and between the Registrant and Chip Perry.		X	10-K	10.31	March 10, 2016
10.21#	Separation Agreement and Release, dated July 18, 2019, by and between the Registrant and Chip Perry.		X	10-Q	10.6	August 9, 2019
10.22#	Consulting Agreement, dated July 18, 2019, by and between the Registrant and Chip Perry.		X	10-Q	10.7	August 9, 2019
10.23#	Employment Agreement, dated August 18, 2015, by and between the Registrant and John Pierantoni.		X	10-Q	10.1	August 9, 2018
10.24#	Separation Agreement and Release, dated March 20, 2019, by and between the Registrant and John Pierantoni.		X	10-Q	10.1	August 9, 2019
10.25#	Consulting Agreement, dated March 20, 2019, by and between the Registrant and John Pierantoni.		X	10-Q	10.2	August 9, 2019
10.26#	Employment Agreement, dated June 30, 2015, by and between the Registrant and Neeraj Gunsagar.		X	10-K	10.33	March 1, 2017
10.27#	Separation Agreement and Release, dated August 19, 2019, by and between the Registrant and Neeraj Gunsagar.		X	10-Q	10.1	November 7, 2019
10.28#	Employment Agreement, dated January 12, 2017, by and between the Registrant and Robert T. McClung.		X	10-K	10.24	March 1, 2019
10.29#	Separation Agreement and Release, dated July 19, 2019, by and between the Registrant and Robert T. McClung.		X	10-Q	10.8	August 9, 2019
10.30*+	Transition Services Agreement, dated as of February 14, 2020, by and between the Registrant and USAA Federal Savings Bank.		X	8-K	10.1	February 20, 2020
21.1	List of Subsidiaries of the Registrant.		X	10-K	21.1	March 1, 2019
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.	X				
24.1	Power of Attorney (included on signature page).	X				
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.		X			
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.		X			
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.		X			
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					
101.SCH	Inline XBRL Taxonomy Extension Schema Document.					
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.					

Exhibit	Exhibit Title	Filed Herewith	Incorp- orated by Reference	Form	Exhibit No.	Date Filed
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.					
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.					
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.					
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibit 101)					

* Certain schedules and similar attachments to this exhibit are omitted pursuant to Item 601(a)(5) of Regulation S-K under the Exchange Act (“Regulation S-K”). The registrant agrees to furnish supplementally a copy of any omitted schedules and similar attachments to the Securities and Exchange Commission or its staff upon request.

Indicates a management contract or compensatory plan.

+ Portions of this exhibit have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K because they are not material and would likely cause competitive harm to the registrant if publicly disclosed. The registrant agrees to furnish an unredacted copy of this exhibit on a supplemental basis to the SEC or its staff upon request.

Item 16. Form 10-K Summary

None.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of TrueCar, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of TrueCar, Inc. and its subsidiaries (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive loss, stockholders’ equity and cash flows for each of the three years in the period ended December 31, 2019, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Changes in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019 and the manner in which it accounts for revenue in 2018.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition -Estimate of Variable Consideration to be Received Upon Future Sales

As described in Note 2 to the consolidated financial statements, for fee arrangements based on a pay-per-sale billing model within the Auto Buying Program, the Company recognizes revenue when introductions are delivered to the dealer and for the amount that management estimates it will be able to earn. In making the estimate, management uses the expected value method based primarily on an analysis of the expected number of sales resulting from in-period introductions. This estimate is based on historical introduction to close rate trends as well as actual sales measured in period. As a result, revenue recognition occurs earlier than billing as an estimate of the variable considerations to be received upon control transfer of the delivered introduction, resulting in a contract asset. For the year ended December 31, 2019, revenue from the pay-per-sale billing model makes up a portion of total revenue of \$354 million.

The principal considerations for our determination that performing procedures relating to revenue recognition, specifically related to the estimate of variable consideration to be received upon future sales, is a critical audit matter are there was significant judgment by management when developing the estimate of the expected number of sales from in-period introductions. This in turn led to significant auditor judgment, subjectivity, and effort in performing procedures over the judgments made by management when developing the estimate of the expected number of sales from in-period introductions. Additionally, significant audit effort was necessary to evaluate the audit evidence obtained relating to the variable considerations to be received upon future sales.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including controls over the estimation of the expected number of sales from in-period introductions. These procedures also included, among others, testing management's process for determining the expected number of sales from in-period introductions. This included evaluating the appropriateness of the expected value method, testing the completeness and accuracy of data provided by management, and the reasonableness of significant assumptions such as the relevance of the historical introduction close rate to the expected number of sales from in-period introductions. Evaluating the assumption related to the relevance of the historical introduction close rate to the expected number of sales from in-period introductions involved evaluating whether the assumptions used were reasonable considering current sales trends. The evaluation of the reasonableness of the historical introduction close rate to the expected number of sales from in-period introductions assumption applied by management also included performing a retrospective comparison of actual sales activity subsequent to year-end related to in-period introductions made during the current year.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California

February 27, 2020

We have served as the Company's auditor since 2009.

TrueCar, Inc.
Consolidated Balance Sheets
(in thousands, except par value and share data)

	December 31,	
	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 181,534	\$ 196,128
Accounts receivable, net of allowances of \$6,759 and \$3,382 at December 31, 2019 and 2018, respectively (includes related party receivables of \$209 and \$349 at December 31, 2019 and 2018, respectively)	44,888	47,760
Prepaid expenses	7,215	7,468
Other current assets	6,104	4,103
Total current assets	239,741	255,459
Property and equipment, net	29,797	61,511
Operating lease right-of-use assets	36,064	—
Goodwill	73,311	73,311
Intangible assets, net	17,260	23,451
Equity method investment	21,894	—
Other assets	3,620	7,228
Total assets	\$ 421,687	\$ 420,960
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable (includes related party payables of \$6,439 and \$5,039 at December 31, 2019 and 2018, respectively)	\$ 21,336	\$ 26,305
Accrued employee expenses	5,969	4,349
Operating lease liabilities, current	5,875	—
Accrued expenses and other current liabilities (includes related party accrued expenses of \$1,299 and \$218 at December 31, 2019 and 2018, respectively)	20,990	10,908
Total current liabilities	54,170	41,562
Deferred tax liabilities	783	568
Lease financing obligation, net of current portion	—	22,987
Operating lease liabilities, net of current portion	37,127	—
Other liabilities	2,336	9,290
Total liabilities	94,416	74,407
Commitments and contingencies (Note 9)		
Stockholders' Equity		
Preferred stock — \$0.0001 par value; 20,000,000 shares authorized at December 31, 2019 and 2018, respectively; no shares issued and outstanding at December 31, 2019 and 2018	—	—
Common stock — \$0.0001 par value; 1,000,000,000 shares authorized at December 31, 2019 and 2018, respectively; 106,865,830 and 104,337,508 shares issued and outstanding at December 31, 2019 and 2018, respectively	11	10
Additional paid-in capital	759,322	720,025
Accumulated deficit	(432,062)	(373,482)
Total stockholders' equity	327,271	346,553
Total liabilities and stockholders' equity	\$ 421,687	\$ 420,960

The accompanying notes are an integral part of these consolidated financial statements.

TrueCar, Inc.
Consolidated Statements of Comprehensive Loss
(in thousands except per share data)

	Year Ended December 31,		
	2019	2018	2017
Revenues (includes related party contra revenue of \$1,189, \$0, and \$0, for the years ended December 31, 2019, 2018, and 2017, respectively)	\$ 353,880	\$ 353,571	\$ 323,149
Costs and operating expenses:			
Cost of revenue (exclusive of depreciation and amortization presented separately below and includes related party expenses of \$966, \$0, and \$0, for the years ended December 31, 2019, 2018, and 2017, respectively)	33,427	31,154	28,227
Sales and marketing (includes related party expenses of \$23,191, \$22,128, and \$16,531, for the years ended December 31, 2019, 2018, and 2017, respectively)	229,342	213,415	185,397
Technology and development	57,188	61,348	59,070
General and administrative	65,148	54,140	61,646
Depreciation and amortization	25,591	22,677	22,472
Total costs and operating expenses	410,696	382,734	356,812
Loss from operations	(56,816)	(29,163)	(33,663)
Interest income	3,495	3,314	1,260
Interest expense	—	(2,649)	(2,610)
Loss from equity method investment	(1,280)	—	—
Loss before income taxes	(54,601)	(28,498)	(35,013)
Provision for / (benefit from) income taxes	289	(177)	(2,164)
Net loss	\$ (54,890)	\$ (28,321)	\$ (32,849)
Net loss per share, basic and diluted	\$ (0.52)	\$ (0.28)	\$ (0.35)
Weighted average common shares outstanding, basic and diluted	105,805	102,149	94,865
Other comprehensive loss:			
Comprehensive loss	\$ (54,890)	\$ (28,321)	\$ (32,849)

The accompanying notes are an integral part of these consolidated financial statements.

TrueCar, Inc.
Consolidated Statements of Stockholders' Equity
(in thousands except share data)

	Common Stock		APIC	Accumulated deficit	Stockholders' Equity
	Shares	Amount			
Balance at December 31, 2016	86,159,527	\$ 9	\$ 542,807	\$ (318,235)	\$ 224,581
Net loss	—	—	—	(32,849)	(32,849)
Issuance of common stock in follow-on offering, net of underwriting discounts and offering costs	1,150,000	—	17,398	—	17,398
Stock-based compensation	—	—	33,648	—	33,648
Shares issued in connection with employee stock plans, net of shares withheld for employee taxes	13,119,129	1	70,339	—	70,340
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	—	—	—	(28,321)	(28,321)
Stock-based compensation	—	—	39,109	—	39,109
Shares issued in connection with employee stock plans, net of shares withheld for employee taxes	3,908,852	—	16,724	—	16,724
Balance at December 31, 2018	104,337,508	\$ 10	\$ 720,025	\$ (373,482)	\$ 346,553
Cumulative-effect of accounting change adopted as of January 1, 2019	—	—	—	(3,690)	(3,690)
Net loss	—	—	—	(54,890)	(54,890)
Stock-based compensation	—	—	39,785	—	39,785
Shares issued in connection with employee stock plans, net of shares withheld for employee taxes	2,528,322	1	(488)	—	(487)
Balance at December 31, 2019	106,865,830	\$ 11	\$ 759,322	\$ (432,062)	\$ 327,271

The accompanying notes are an integral part of these consolidated financial statements.

TrueCar, Inc.
Consolidated Statements of Cash Flows
(in thousands)

	For the Year Ended December 31,		
	2019	2018	2017
Cash flows from operating activities			
Net loss	\$ (54,890)	\$ (28,321)	\$ (32,849)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	25,620	22,661	22,391
Deferred income taxes	215	(244)	(2,182)
Bad debt expense	1,432	1,688	1,385
Stock-based compensation	37,974	37,219	32,241
Increase in the fair value of contingent consideration liability	300	—	—
Amortization of lease right-of-use assets	5,946	—	—
Loss from equity method investment	1,280	—	—
Non-cash interest expense on lease financing obligation	—	332	370
Impairment or write-off and net loss on disposal of finite-lived assets	1,109	311	194
Changes in operating assets and liabilities:			
Accounts receivable	1,440	(10,039)	(3,687)
Prepaid expenses	(747)	(1,964)	569
Other current assets	(1,820)	87	765
Other assets	2,524	(1,644)	162
Accounts payable	(4,940)	7,543	4,803
Accrued employee expenses	1,494	(2,177)	(2,683)
Operating lease liabilities	(6,846)	—	—
Accrued expenses and other current liabilities	10,650	(642)	(479)
Other liabilities	(397)	23	1,118
Net cash provided by operating activities	20,344	24,833	22,118
Cash flows from investing activities			
Purchase of property and equipment	(11,284)	(17,099)	(19,809)
Cash received from lease financing obligation exit	—	800	—
Cash paid for acquisition, net of cash acquired	—	(26,891)	—
Cash paid for equity method investment	(23,174)	—	—
Net cash used in investing activities	(34,458)	(43,190)	(19,809)
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	2,859	19,757	73,543
Taxes paid related to net share settlement of equity awards	(3,339)	(3,034)	(3,209)
Net cash (used in) provided by financing activities	(480)	16,723	87,732
Net (decrease) increase in cash and cash equivalents	(14,594)	(1,634)	90,041
Cash and cash equivalents at beginning of year	196,128	197,762	107,721
Cash and cash equivalents at end of year	\$ 181,534	\$ 196,128	\$ 197,762
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest	\$ —	\$ 2,323	\$ 2,099
Income taxes	78	30	43

Supplemental disclosures of non-cash activities

Stock-based compensation capitalized for software development	1,811	1,890	1,407
De-recognition of leased facility asset and lease financing obligation	—	6,889	—
Recognition of warrant asset and related liability	—	1,231	—
Contingent consideration recognized for acquisition	—	4,477	—
Capitalized assets included in accounts payable, accrued employee expenses and other accrued expenses	363	312	1,980

The accompanying notes are an integral part of these consolidated financial statements.

TrueCar, Inc.

Notes to Consolidated Financial Statements

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 ALG, Inc., TrueCar Dealer Solutions, Inc. and DealerScience, LLC are collectively referred to as “TrueCar” or the “Company”; ALG, Inc. is referred to as “ALG,” TrueCar Dealer Solutions, Inc. is referred to as “TCDS” and DealerScience, LLC is referred to as “DealerScience.” 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.

Through its subsidiary TCDS, the Company provides its TrueCar Trade product, which gives consumers information on the value of their trade-in vehicles and enables them to obtain a guaranteed trade-in price before setting foot in the dealership. This valuation is, in turn, backed by a third-party guarantee to dealers that the vehicles will be repurchased at the indicated price if the dealer does not want to keep them.

Additionally, in December 2018, the Company acquired DealerScience, which, through TCDS, provides dealers with advanced digital retailing software tools that allow them to calculate accurate monthly payments, expedite vehicle desking, which is the process of presenting and agreeing upon financial terms and financing options, and streamline the consumer’s experience from shopping to showroom.

TrueCar, Inc.**Notes to Consolidated Financial Statements (Continued)****2. Summary of Significant Accounting Policies****Basis of Presentation**

The Company's accounting and financial reporting policies conform to accounting principles generally accepted in the United States of America ("GAAP").

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of TrueCar and its wholly owned subsidiaries. Business acquisitions are included in the Company's consolidated financial statements from the date of the acquisition. The Company's purchase accounting resulted in all assets and liabilities of acquired businesses being recorded at their estimated fair values on the acquisition dates. All intercompany balances and transactions have been eliminated in consolidation.

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 a warrant asset and the related liability, 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 fair values of its right-of-use assets and lease liabilities, capitalized facility leases, assets and liabilities assumed in business combinations, warrant asset and related liability, assets and liabilities of its equity method investment, performance-based stock units, and in periods prior to the Company's initial public offering, valuation of common stock.

Segments

The Company has one operating segment. During the first quarter of 2019, the Company's chief operating decision maker ("CODM") was the President and Chief Executive Officer and the Interim Chief Financial Officer and Chief Accounting Officer, who managed the Company's operations based on consolidated financial information for purposes of evaluating financial performance and allocating resources. Effective April 1, 2019, the Company's Interim Chief Financial Officer and Chief Accounting Officer resigned from his positions. From April 1, 2019, through May 31, 2019, the Company's CODM was solely comprised of the President and Chief Executive Officer until his resignation on May 31, 2019. From June 1, 2019 through June 16, 2019, the CODM was comprised of the Interim President and Chief Executive Officer. Upon the hiring of the Chief Financial Officer on June 17, 2019 and through December 31, 2019, the CODM was comprised of both the Interim President and Chief Executive Officer and the Chief Financial Officer. During the year ended December 31, 2019, the Company's operations were managed based on consolidated financial information for purposes of evaluating financial performance and allocating resources by the various CODM in place.

The CODM reviews financial information on a consolidated basis, accompanied by information about dealer revenue, OEM incentive revenue, and forecasts, consulting and other revenue (Note 4). All of the Company's principal operations, decision-making functions and assets are located in the United States.

Equity Method Investment

On February 8, 2019, the Company acquired 20% of the outstanding equity interests of Accu-Trade, LLC, a Delaware limited liability company ("Accu-Trade"), from R.M. Hollenshead Auto Sales & Leasing, Inc., a Florida corporation ("RHAS"), Robert M. Hollenshead ("Hollenshead") and Jeffrey J. Zamora ("Zamora" and, together with RHAS and Hollenshead, the "Sellers"), pursuant to a Membership Interest Purchase Agreement, dated as of February 8, 2019 (the "Purchase Agreement"), by and among Accu-Trade,

TrueCar, Inc.

Notes to Consolidated Financial Statements (Continued)

RHAS, Hollenshead, Zamora and the Company. Pursuant to the Purchase Agreement, and upon the terms and subject to the conditions thereof, the Company paid the Sellers \$17.9 million in cash consideration and made a \$5 million capital contribution to Accu-Trade. The Company recognizes its proportional share of the income or loss from the equity method investment on a one-quarter lag due to the timing and availability of financial information from Accu-Trade.

Included in the initial carrying value of \$22.9 million, which represents the fair value on the transaction date, was a basis difference of \$21.0 million related to the difference between the cost of the investment and the Company's proportionate share of the net assets of Accu-Trade. The carrying value of the equity method investment is primarily adjusted for the Company's share in the losses of Accu-Trade and amortization of the basis difference. The Company amortizes its basis difference between the estimated fair value and the underlying book value of Accu-Trade's technology and guarantor relationship over their respective useful lives using the straight-line method. The weighted-average life of these intangible assets is approximately 5 years.

Fair Value Measurements

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

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

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

Fair Value Methods

Fair value is based on quoted market prices, if available. If listed prices or quotes are not available, fair value is based on internally-developed models that primarily use market-based or independently sourced market parameters as inputs.

For assets and liabilities measured at fair value, the following section describes the valuation methodologies, key inputs, and significant assumptions.

Cash equivalents, consisting primarily of money market instruments and debt securities, represent highly liquid investments with maturities of three months or less at purchase. Generally, market prices are used to determine the fair value of money market instruments and debt securities.

The carrying amounts of cash equivalents, accounts receivable, prepaid and other current assets, accounts payable, and accrued liabilities approximate fair value because of the short maturity of these items. The fair value of the Company's revolving line of credit approximates carrying value based on the Company's current incremental borrowing rate for similar types of borrowing arrangements.

Certain assets, including the equity method investment, warrant asset, right-of-use assets, property and equipment, goodwill, and intangible assets are also subject to measurement at fair value on a non-recurring basis if they are deemed to be impaired as a result of an impairment review. For the years ended December 31, 2019, 2018, and 2017, no impairments were identified on those assets required to be measured at fair value on a non-recurring basis.

The Company recorded a contingent consideration liability upon the acquisition of DealerScience in 2018 (Note 5). Contingent consideration is measured at fair value and is based on significant inputs not observable in the market, which represents a

TrueCar, Inc.

Notes to Consolidated Financial Statements (Continued)

Level 3 measurement within the fair-value hierarchy. The valuation of contingent consideration uses assumptions the Company believes a market participant would make. The Company assesses these estimates on an ongoing basis as it obtains additional data impacting the assumptions. Changes in the fair value of contingent consideration related to updated assumptions and estimates are recognized within the consolidated statements of comprehensive loss. The Company determined the fair value of the contingent consideration using the probability-adjusted discounted cash flow method. Because the DealerScience purchase agreement makes payment of the contingent consideration contingent on achievement of certain revenue milestones, the significant unobservable inputs used in the fair value measurement of contingent consideration are the probabilities of achieving those milestones and discount rates. Significant increases or decreases in the probabilities of achieving the milestones would result in a significantly higher or lower fair value measurement, respectively.

The following table summarizes the Company's assets and liabilities at fair value on a recurring basis at December 31, 2019 and 2018 by level within the fair-value hierarchy. These assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

	At December 31, 2019				At December 31, 2018			
	Level 1	Level 2	Level 3	Total Fair Value	Level 1	Level 2	Level 3	Total Fair Value
Assets:								
Cash equivalents	\$ 174,429	\$ —	\$ —	\$ 174,429	\$ 192,207	\$ —	\$ —	\$ 192,207
Total Assets	\$ 174,429	\$ —	\$ —	\$ 174,429	\$ 192,207	\$ —	\$ —	\$ 192,207
Liabilities:								
Contingent consideration, current	\$ —	\$ —	\$ 2,441	\$ 2,441	\$ —	\$ —	\$ —	\$ —
Contingent consideration, non-current	—	—	2,336	2,336	—	—	4,477	4,477
Total Liabilities	\$ —	\$ —	\$ 4,777	\$ 4,777	\$ —	\$ —	\$ 4,477	\$ 4,477

Contingent Consideration Obligations

The following table summarizes the changes in the fair value of the contingent consideration obligation (in thousands):

	Year Ended December 31,	
	2019	2018
Fair value, at beginning of year	\$ 4,477	\$ —
Additions	—	4,477
Changes in fair value	300	—
Fair value, at end of year	\$ 4,777	\$ 4,477

Concentrations of Credit and Business Risk

Financial instruments that potentially subject the Company to credit risk consist principally of cash and cash equivalents and accounts receivable.

The Company, at times, maintains cash balances at financial institutions in excess of amounts insured by United States government agencies or payable by the United States government directly. The Company places its cash and cash equivalents with high credit quality financial institutions.

TrueCar, Inc.**Notes to Consolidated Financial Statements (Continued)**

Credit is extended to customers based on an evaluation of their financial condition and other factors. The Company generally does not require collateral or other security to support accounts receivable. The Company performs ongoing credit evaluations of its customers and maintains an allowance for doubtful accounts based on these evaluations. No single customer comprised more than 10% of the Company's total revenues for the years ended December 31, 2019, 2018, and 2017. No single customer comprised more than 10% of the Company's accounts receivable balance at December 31, 2019 and 2018.

The Company's largest source of unique visitors and unit sales from affinity group marketing partners in 2019 comes from its relationship with United Services Automobile Association ("USAA"), a related party (Note 15). See Note 16 for further details on a short-term agreement executed subsequent to December 31, 2019.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original or remaining maturity at the date of purchase of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash and cash equivalents were comprised of cash held in money market funds and checking accounts.

Accounts Receivable, Allowance for Doubtful Accounts, and Sales Allowances

The Company extends credit in the normal course of business to its customers and performs credit evaluations on a case-by-case basis. The Company does not obtain collateral or other security related to its accounts receivable.

Accounts receivable are recorded based on the amount due from the customer and do not bear interest. The Company reduces accounts receivable for sales allowances and its allowance for doubtful accounts. For contract assets, the Company records the assets net of sales allowances and an allowance for doubtful accounts, which are estimated in the same manner as for accounts receivable balances.

The Company establishes sales allowances at the time of revenue recognition based on its history of adjustments and credits provided to its network of dealers. Sales allowances relate primarily to credits issued where a dealer claims that an introduction was previously identified by the dealer from a source other than the Company. While the dealer is contractually obligated to pay the invoice, the Company may issue a credit against the invoice to maintain overall dealer relations. In assessing the adequacy of its sales allowances, the Company evaluates its history of adjustments and credits made through the date of the issuance of the financial statements. Estimated sales adjustments and credits and ultimate losses may vary from actual results which could be material to the financial statements; however, to date, actual sales allowances have been materially consistent with the Company's estimates.

The Company determines its allowance for doubtful accounts based on its historical write-off experience and specific circumstances that make it likely that recovery will not occur in a particular case. The Company reviews the allowance for doubtful accounts each reporting period and assesses the aging of account balances, with an emphasis on those that are past due over ninety days. Account balances are charged off against the allowance when the Company determines that it is probable the receivable will not be recovered. The Company does not have any off-balance sheet credit exposure related to its customers.

The following table summarizes the changes in the allowance for doubtful accounts and sales allowances (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Allowances, at beginning of year	\$ 3,382	\$ 3,030	\$ 2,600
Charged as a reduction of revenue	11,751	8,703	7,734
Charged to bad debt expense in general and administrative expenses	1,432	1,688	1,385
Write-offs, net of recoveries	(9,806)	(10,039)	(8,689)
Allowances, at end of year	<u>\$ 6,759</u>	<u>\$ 3,382</u>	<u>\$ 3,030</u>

TrueCar, Inc.**Notes to Consolidated Financial Statements (Continued)****Property and Equipment, net**

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is generally three years for computer hardware and software, five years for furniture and equipment, and over the shorter of the lease term or the useful life of the assets for leasehold improvements. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the Company's results of operations.

Leases

On January 1, 2019, the Company adopted the new lease accounting standard using the modified retrospective transition method applied at the effective date of the standard. The Company determines if an arrangement is a lease at inception and determine the classification of the lease, as either operating or finance, at commencement. The Company does not have any finance leases.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The Company estimates the incremental borrowing rate to reflect the profile of secured borrowing over the expected term of the leases based on the information available at the later of the initial date of adoption or the lease commencement date.

The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Sublease rental income is recognized as a reduction to the related lease expense on a straight-line basis over the sublease term. See Note 3 for additional information.

Software and Website Development Costs

The Company accounts for the costs of computer software obtained or developed for internal use in accordance with FASB ASC 350, *Intangibles — Goodwill and Other*. Computer software development costs and website development costs are expensed as incurred, except for internal use software or website development costs that qualify for capitalization as described below, and include certain employee related expenses, including salaries, bonuses, benefits and stock-based compensation expenses; costs of computer hardware and software; and costs incurred in developing features and functionality. These capitalized costs are included in property and equipment on the consolidated balance sheets.

The Company expenses costs incurred in the preliminary project and post-implementation stages of software development and capitalizes costs incurred in the application development stage and costs associated with significant enhancements to existing internal use software applications.

Software costs are amortized using the straight-line method over an estimated useful life of three years commencing when the software project is ready for its intended use.

Costs incurred related to less significant modifications and enhancements as well as maintenance are expensed as incurred.

At December 31, 2019 and 2018, capitalized software costs were \$50.4 million and \$86.0 million, respectively, before accumulated amortization of \$28.2 million and \$62.2 million, respectively. During the years ended December 31, 2019 and 2018, the Company recorded accelerated amortization of \$1.1 million and \$1.0 million, respectively, related to software assets that were determined to have shortened useful lives due to upgrades to the Company's technology infrastructure.

TrueCar, Inc.**Notes to Consolidated Financial Statements (Continued)**

Expected amortization expense with respect to capitalized software costs at December 31, 2019 for each of the years through December 31, 2022 is as follows (in thousands):

Years ended December 31,		
2020	\$	12,302
2021		7,504
2022		2,364
Total amortization expense	\$	22,170

Intangible Assets Acquired in Business Combinations

The Company values assets acquired and liabilities assumed on each acquisition accounted for as a business combination, and allocates the purchase price to the tangible and intangible assets acquired and liabilities assumed based on its best estimate of fair value. Acquired intangible assets include: trade names, customer relationships, and developed technology. The Company determines the appropriate useful life of intangible assets by performing an analysis of cash flows based on historical experience of the acquired businesses. Intangible assets are amortized over their estimated useful lives based on the pattern in which the economic benefits associated with the asset are expected to be consumed, which to date has approximated the straight-line method of amortization. The estimated useful lives for trade names, customer relationships, and technology are generally, one to fifteen years, two to ten years, and three to ten years, respectively.

Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets with finite useful lives for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Such triggering events or changes in circumstances may include: a significant decrease in the market price of a long-lived asset, a significant adverse change in the extent or manner in which a long-lived asset is being used, a significant adverse change in legal factors or in the business climate, the impact of competition or other factors that could affect the value of a long-lived asset, a significant deterioration in the amount of revenue or cash flows expected to be generated from an asset group, an accumulation of costs significantly in excess of the amount originally expected for the acquisition or development of a long-lived asset, current or future operating or cash flow losses that demonstrate continuing losses associated with the use of a long-lived asset, or a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously-estimated useful life. The Company performs impairment testing at the asset group level that represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable and the expected undiscounted future cash flows attributable to the asset group are less than the carrying amount of the asset group, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Fair value is determined based upon estimated discounted future cash flows. During the years ended December 31, 2019, 2018, and 2017, there were no impairment charges recorded on the Company's long-lived assets.

Goodwill

Goodwill represents the excess of the aggregate purchase price paid over the fair value of the identifiable assets and liabilities acquired in the Company's business combinations. Goodwill is not amortized and is tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Events or changes in circumstances that could trigger an impairment review include a significant adverse change in business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant changes in the manner of use of the acquired assets or the Company's overall business strategy, significant negative industry or economic trends, significant underperformance relative to expected historical or projected future results of operations, or a decline in the Company's stock price and market capitalization. During 2019, the Company's stock price experienced high volatility ranging from a high of \$10.39 to a low of \$3.01 per share, causing a decline in its enterprise market capitalization. If the Company's stock price declines further, material write-downs or impairment charges may be required in the future. The magnitude and timing of those charges would be dependent on the severity and duration of the decline and cannot be determined at this time. Any material non-cash impairment charges related to goodwill would have a material adverse effect on the Company's results of operations and financial condition.

TrueCar, Inc.**Notes to Consolidated Financial Statements (Continued)**

The Company has the option to assess goodwill for possible impairment by performing a qualitative analysis to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount or to perform the quantitative impairment test.

The quantitative test involves comparing the estimated fair value of a reporting unit with its respective book value, including goodwill. If the estimated fair value exceeds book value, goodwill is considered not to be impaired. If, however, the fair value of the reporting unit is less than book value, an impairment loss is recognized in an amount equal to the excess.

The Company tests for goodwill impairment annually at December 31st. During the years ended December 31, 2019, 2018, and 2017, there were no impairment charges recorded on goodwill. In 2019 and 2018, we elected to conduct a quantitative goodwill assessment at December 31, 2019 and 2018, respectively. The fair value significantly exceeded the carrying value and, accordingly, we concluded that there was no impairment of goodwill at December 31, 2019 and 2018.

During the year ended December 31, 2018, goodwill increased \$20.0 million as a result of the DealerScience acquisition. See Note 5 for further details.

Warrant

On November 19, 2018, TrueCar entered into a warrant agreement with DealerSync, Inc. (“DealerSync”) that entitles TrueCar to purchase up to 2,500,000 shares of DealerSync common stock at \$1.60 per share. The warrant expires on November 19, 2020. The fair value was determined using a Monte-Carlo simulation. The Company recorded the fair value of the DealerSync warrant of \$1.2 million in “other assets” and corresponding liabilities (the current portion of the liability of \$0.2 million recorded in “accrued expenses and other current liabilities” and the non-current portion of \$1.0 million recorded in “other liabilities”) in the consolidated balance sheet as of December 31, 2018, reflecting the benefit received as part of its commercial sales agent agreement with DealerSync. In June 2019, the Company terminated its commercial sales agent agreement with DealerSync, resulting in the write-off of the warrant asset and corresponding liability. The net impact of the write-offs was immaterial to the Company’s consolidated statements of comprehensive loss during the year ended December 31, 2019.

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 4 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.

Dealer Revenue

Dealer revenue is comprised of Auto Buying Program revenue as well as revenue from TrueCar Trade and DealerScience.

Auto Buying Program 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 in one of three ways: on a per-vehicle basis for sales to Auto Buying Program users, on a per-introduction basis for sales to Auto Buying

TrueCar, Inc.**Notes to Consolidated Financial Statements (Continued)**

Program users, or under 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 a vehicle purchase through the Company, the user provides his or her name, address, email, and phone number during the process of obtaining price offers on actual vehicle inventory, which gives the Company the identity and source of a TrueCar introduction provided to a specific Dealer before an actual sale occurs. After a sale occurs, the Company receives information regarding the sale, including the identity of the purchaser, through 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.

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 the expected number of sales resulting from in-period introductions. This estimate is based on historical introductions to vehicle sale close rate trends as well as actual sales measured in period. Under the contractual terms and conditions of arrangements with TrueCar Certified Dealers that pay on a per-vehicle-sale 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 upon control transfer of the delivered introduction, 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. As of January 1, 2019, the Company no longer offers guaranteed sales subscription arrangements in California, and it transferred all California dealers from this billing method to flat-rate subscription arrangements before that date.

TrueCar, Inc.**Notes to Consolidated Financial Statements (Continued)**

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.

TrueCar Trade. TrueCar Trade provides consumers with information on the value of their trade-in vehicles, while providing Dealers with introductions to these in-market consumers so that those Dealers have the opportunity to buy trade-in vehicles from those consumers. Dealers pay monthly subscription fees for access to TrueCar Trade that vary depending on the level of service selected. Depending on their subscription terms, some Dealers pay additional transaction fees for each vehicle purchased from a consumer that was introduced through TrueCar Trade. Subscription fees are recognized on a monthly basis, while transaction fees for vehicles purchased by a Dealer are estimated and recognized at the point in time the introduction between the Dealer and consumer occurs.

DealerScience. DealerScience revenues consist of monthly subscription fees paid by dealers for access to DealerScience's products and services. DealerScience provides dealers with advanced digital retailing software tools that allow them to calculate accurate monthly payments, expedite vehicle desking, which is the process of presenting and agreeing upon financial terms and financing options, and streamline the consumers' experience from shopping to showroom. Subscription fees are recognized on a monthly basis.

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 the expected number of sales resulting from in-period incentive offers delivered. This estimate is based on historical incentive offers to vehicle sale close rate trends as well as delivered incentive offers resulting in actual sales measured in period. As a result, revenue recognition occurs earlier than billing as an estimate of the variable consideration to be received upon control transfer, resulting in a contract asset.

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.

TrueCar, Inc.**Notes to Consolidated Financial Statements (Continued)**

The Company has elected to use the practical expedient of not disclosing 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.

Cost of Revenue (exclusive of depreciation and amortization)

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

Sales and Marketing

Sales and marketing expenses consist primarily of: television, digital, and radio advertising; media production costs; affinity group partner marketing fees, which also includes loan subvention costs where the Company pays certain affinity group marketing partners a portion of consumers' borrowing costs for car loan products offered by these affinity group marketing partners; common stock warrants issued to USAA; marketing sponsorship programs; and digital customer acquisition. In addition, sales and marketing expenses include employee-related expenses for sales, customer support, marketing, and public relations employees, including salaries, bonuses, benefits, severance, and stock-based compensation expenses; third-party contractor fees; and facilities costs.

Marketing and advertising costs promote our services and are expensed as incurred, except for media production costs which are expensed the first time the advertisement is aired. Marketing and advertising expenses were \$82.6 million, \$75.9 million, and \$71.0 million for the years ended December 31, 2019, 2018 and 2017, respectively. Prepaid expenses include prepaid media costs of \$1.0 million and \$1.3 million at December 31, 2019 and 2018, respectively. Accrued marketing and advertising expenses were \$7.5 million and \$1.8 million at December 31, 2019 and 2018, respectively, and were included within accrued expenses and other current liabilities on the consolidated balance sheets.

Technology and Development

Technology and development expenses consist primarily of employee-related expenses for technology and development staff, including salaries, benefits, bonuses, severance, and stock-based compensation; the cost of certain third-party service providers; and facilities costs. Technology and development expenses are expensed as incurred.

General and Administrative

General and administrative expenses consist primarily of employee-related expenses for administrative, legal, finance, and human resource staffs, including salaries, benefits, bonuses, severance, and stock-based compensation; professional fees; insurance premiums; other corporate expenses; lease-exit charges; and facilities costs.

TrueCar, Inc.**Notes to Consolidated Financial Statements (Continued)****Stock-Based Compensation**

The Company recognizes stock-based compensation expense related to employee stock options and restricted stock units based on the fair value of the awards on the grant date. Stock-based compensation for employee awards is recognized on a straight-line basis over the requisite period, except for performance-based awards which are recognized using the graded-vesting model. The Company estimates the grant-date fair value of option grants, and the resulting stock-based compensation expense, using the Black-Scholes option-pricing model. For issuances of restricted stock units, the Company determines the fair value of the award based on the closing market value of its common stock at the date of grant.

Compensation expense for non-employee stock-based awards is recognized in accordance with Accounting Standards Update ("ASU") No. 2018-07, *Stock-based Compensation - Improvements to Nonemployee Share-based Payment Accounting*, which the Company adopted on January 1, 2019. This ASU aligns much of the guidance on measuring and classifying nonemployee awards with that of awards to employees. Under this new guidance, the measurement of nonemployee equity awards is fixed on the grant date. Stock option awards issued to non-employees are accounted for at fair value using the Black-Scholes option-pricing model. Restricted stock unit awards are measured based on the closing market value of the Company's common stock at grant date. Stock-based compensation is recognized over the service period.

Income Taxes

The Company accounts for income taxes under the asset and liability method, under which deferred tax assets and liabilities are determined based on the differences between the financial reporting and income tax bases of assets and liabilities and are measured using the tax rates that will be in effect when the differences are expected to reverse. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized.

The Company determines whether a tax position is more likely than not to be sustained upon examination based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial statements is reduced by the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company recognizes interest and penalties accrued related to unrecognized tax benefits, if any, in its income tax provision in the accompanying statements of comprehensive loss.

Comprehensive Loss

Comprehensive loss encompasses all changes in equity other than those arising from transactions with stockholders. For the years ended December 31, 2019, 2018 and 2017, the Company had no other comprehensive income (loss) items and accordingly, net loss equaled comprehensive loss.

Recent Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board ("FASB") issued new guidance to simplify the accounting for income taxes by removing certain exceptions to the general principles in Accounting Standards Codification Topic 740, Income Taxes. This standard is effective for annual reporting periods beginning after December 15, 2020, including interim reporting periods within those annual reporting periods. The Company is currently evaluating the impact of this guidance but the adoption is not expected to have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued new guidance that modifies the disclosure requirements in fair value measurements by removing, modifying and adding certain disclosures. This standard is effective for annual reporting periods beginning after December 15, 2019, 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.

TrueCar, Inc.

Notes to Consolidated Financial Statements (Continued)

In August 2018, the FASB issued new guidance that aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This standard is effective for annual reporting periods beginning after December 15, 2019, 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 June 2018, the FASB issued new guidance to simplify the accounting for nonemployee share-based payment transactions by expanding the scope of Accounting Standards Codification 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 did not have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued new guidance that replaces the existing model for measuring the allowance for credit losses for financial assets measured at amortized cost (including trade accounts receivable) to a model that is based on the expected losses rather than incurred losses. Under the new credit loss model, lifetime expected credit losses on such financial assets are measured and recognized at each reporting date based on historical, current, and forecast information. This standard is effective for annual reporting periods beginning after December 15, 2019, 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 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. On January 1, 2019, the Company adopted the new leasing standard using the modified retrospective transition method. See Note 3 for further details.

3. Leases

Adoption of the New Lease Accounting Standard

On January 1, 2019, the Company adopted the new lease accounting standard using the modified retrospective transition method applied at the effective date of the standard. Results for reporting periods beginning after January 1, 2019 are presented under the new leasing standard, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting. The Company has elected to utilize the package of practical expedients at the time of adoption, which allows the Company to (1) not reassess whether any expired or existing contracts are or contain leases, (2) not reassess the lease classification of any expired or existing leases, and (3) not reassess initial direct costs for any existing leases. The Company also has elected to utilize the short-term lease recognition exemption and, for those leases that qualified, the Company did not recognize right-of-use ("ROU") assets or lease liabilities.

Adoption Impact

As a result of adoption, the Company recorded a material impact as ROU assets and lease liabilities are recognized on the consolidated balance sheet related to office facility leases. The ROU assets and lease liabilities were valued using the incremental borrowing rate as of the adoption date. Additionally, the Company expects to recognize greater rent expense in operating expenses and less interest expense as the Company's prior build-to-suit leases are now classified as operating leases. Additionally, the change related to build-to-suit leases resulted in the removal of build-to-suit assets from the consolidated balance sheet, which reduced property and equipment, net by \$28.3 million and eliminated the lease financing obligation of \$1.8 million within accrued expenses and other liabilities and \$23.0 million within lease financing obligation, net of current portion. See Note 6 for further details.

The cumulative effects of the changes made to the Company's January 1, 2019 consolidated balance sheet were as follows (in thousands):

	December 31, 2018	Adjustments Due to Adoption of New Leasing Standard	January 1, 2019
Assets			
Other current assets	\$ 4,103	\$ 188	\$ 4,291
Property and equipment, net	61,511	(25,461)	36,050
Operating lease right-of-use assets	—	42,010	42,010
Other assets	7,228	147	7,375
Liabilities			
Operating lease liabilities, current	\$ —	\$ 6,498	\$ 6,498
Accrued expenses and other current liabilities	10,908	(2,637)	8,271
Lease financing obligation, net of current portion	22,987	(22,987)	—
Operating lease liabilities, net of current portion	—	43,351	43,351
Other liabilities	9,290	(3,651)	5,639
Stockholders' Equity			
Accumulated deficit	\$ (373,482)	\$ (3,690)	\$ (377,172)

Lease Costs

For the year ended December 31, 2019, the Company recorded operating lease costs, excluding subleases, that were included in the consolidated statements of comprehensive loss as follows (in thousands):

	Year Ended December 31, 2019
Operating lease costs recorded within:	
Cost of revenue	\$ 740
Sales and marketing	1,741
Technology and development	2,462
General and administrative	3,597
Total operating lease costs	\$ 8,540

The Company did not include short term or variable lease costs in the table above as these amounts were immaterial. For the years ended December 31, 2018 and 2017, the Company recorded lease costs, excluding subleases, of \$4.9 million and \$4.8 million, respectively. The Company made cash payments of \$9.4 million, \$9.5 million and \$8.5 million for the years ended December 31, 2019, 2018, and 2017, respectively, all of which were included in cash flows from operating activities within the consolidated statements of cash flows. The Company's operating leases have a weighted average remaining lease term of 6.9 years and weighted average discount rate of 5.7%. For its subleases, the Company recorded contra rent expense of \$2.0 million, \$2.1 million and \$1.9 million for the years ended December 31, 2019, 2018, and 2017, respectively.

The existing operating leases have remaining lease terms ranging from two months to 10.1 years. Certain lease agreements contain options to renew, with renewal terms that generally extend the lease terms by 3 to 5 years for each option.

Lease Commitments

Future undiscounted lease payments for the Company's operating lease liabilities, a reconciliation of these payments to its operating lease liabilities, and related sublease income at December 31, 2019 are as follows (in thousands):

Years ended December 31,	
2020	\$ 7,762
2021	7,152
2022	7,369
2023	7,628
2024	7,860
Thereafter	14,702
Total lease payments	\$ 52,473
Less: imputed interest	(9,471)
Total lease liabilities (discounted)	\$ 43,002

Year ended December 31,	Sublease Income
2020	\$ (1,299)
Total sublease income	\$ (1,299)

As previously disclosed in the Company's 2018 Annual Report on Form 10-K and under the previous lease accounting standard, future minimum lease payments for the Company's operating leases at December 31, 2018, on an undiscounted basis, were as follows (in thousands):

Years ended December 31,	Lease Commitments	Sublease Income
2019	\$ 9,220	\$ (2,180)
2020	8,716	(1,282)
2021	7,145	—
2022	7,362	—
2023	7,621	—
Thereafter	22,532	—
Total minimum lease payments	\$ 62,596	\$ (3,462)

4. Revenue Information and Deferred Sales Commissions

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.

Deferred Sales Commissions

Deferred sales commissions within other assets were \$2.8 million and \$3.2 million as of December 31, 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018, amortization expense for deferred sales commissions was \$2.1 million and \$1.7 million, respectively. There was no impairment loss in relation to the costs capitalized in either period.

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 and 2019 were transferred to accounts receivable during the years ended December 31, 2019 and 2018 as vehicle sales occurred, with no significant changes in the estimate. A contract asset of \$2.8 million and \$3.3 million was recorded as of December 31, 2019 and 2018, respectively, 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: dealer revenue, OEM incentives revenue, and forecasts, consulting and other revenue. Prior to adoption of the new revenue standard, dealer 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):

	Year Ended December 31,		
	2019	2018	2017(1)
Dealer revenue	\$ 317,965	\$ 304,596	\$ 280,563
OEM incentives revenue	16,569	30,012	23,277
Forecasts, consulting and other revenue	19,346	18,963	19,309
Total revenues	<u>\$ 353,880</u>	<u>\$ 353,571</u>	<u>\$ 323,149</u>

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

5. Business Combination

On December 7, 2018, the Company acquired the assets and assumed the liabilities of DealerScience for \$27.9 million in cash and contingent cash consideration of up to \$5.0 million based on achievement of future revenues. The acquisition of DealerScience allows the Company to more quickly expand into the digital retailing space in efforts to build out its end-to-end user experience. At the date of the acquisition, the Company assessed the probabilities of DealerScience meeting future revenues and recorded contingent consideration of \$4.5 million. From the acquisition date through December 31, 2019, there were no significant changes to the value of the contingent consideration, which was recorded within accrued expenses and other current liabilities and other long-term liabilities as of December 31, 2019, and within other long-term liabilities as of December 31, 2018.

The Company recorded goodwill of \$20.0 million, which represents the excess of the purchase price over the fair value of the tangible and identifiable intangible assets acquired and liabilities assumed. The goodwill is attributable to the workforce of the acquired business and the significant synergies expected to arise from the Company's acquisition of DealerScience. Goodwill attributed to the acquisition is deductible for income tax purposes.

The following table summarizes the allocation of the purchase consideration and the estimated fair value of the assets acquired and the liabilities assumed for the acquisition of DealerScience during the year ended December 31, 2018 (in thousands):

	<u>DealerScience</u>
Assets acquired	
Cash	\$ 1,037
Accounts receivable	240
Prepaid expenses	29
Acquired technology	9,900
Customer relationships	1,500
Goodwill	20,041
Total assets acquired	<u>\$ 32,747</u>
Liabilities assumed	<u>342</u>
Net assets acquired	<u>\$ 32,405</u>
Consideration paid	
Cash paid	\$ 27,928
Contingent consideration	4,477
Total consideration	<u>\$ 32,405</u>

The weighted average useful life of all identified acquired intangible assets is 5 years. The estimated useful lives for acquired technology and customer relationships are 6 years and 2 years, respectively.

For the year ended December 31, 2018, the Company incurred transaction costs of \$0.4 million in connection with the DealerScience acquisition which were expensed as incurred and included in general and administrative expense in the accompanying consolidated statements of comprehensive loss.

The Company's consolidated financial statements include the operating results of DealerScience for the year ended December 31, 2019 and from the date of acquisition of December 7, 2018 through December 31, 2018. Separate operating results and pro forma results of operations for DealerScience have not been presented as the effect of the acquisition is not material to the Company's financial results.

6. Property and Equipment, net

Property and equipment consisted of the following at December 31, 2019 and 2018 (in thousands):

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Computer equipment, software, and internally developed software	\$ 60,049	\$ 99,204
Furniture and fixtures	4,927	4,758
Leasehold improvements	15,839	8,602
Capitalized facility leases	—	30,632
	<u>80,815</u>	<u>143,196</u>
Less: Accumulated depreciation	(51,018)	(81,685)
Total property and equipment, net	<u>\$ 29,797</u>	<u>\$ 61,511</u>

Prior to the adoption of the new lease guidance, the Company was considered the owner, for accounting purposes only, of one of its Santa Monica, California leased office spaces as it had taken on certain risks of construction build cost overages above normal tenant improvement allowances. This capitalized facility lease was removed from the balance sheet at adoption on January 1, 2019. Refer to Note 3 for further details. Prior to the adoption of the new lease guidance and as of December 31, 2018, the Company had capitalized \$30.6 million related to the capitalized facility lease, 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. No interest costs related to this capitalized facility lease was capitalized for the year ended December 31, 2018. At

TrueCar, Inc.

Notes to Consolidated Financial Statements (Continued)

December 31, 2018, the Company had recorded accumulated amortization of \$2.3 million. Additionally, at December 31, 2018, the Company recognized a corresponding lease financing obligation of approximately \$24.8 million.

Included in the table above are property and equipment of \$1.4 million and \$1.1 million as of December 31, 2019 and 2018, 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 \$19.4 million, \$18.8 million, and \$18.6 million for the years ended December 31, 2019, 2018, and 2017, respectively.

Amortization of internal use capitalized software development costs was \$14.0 million, \$13.4 million, and \$13.5 million for the years ended December 31, 2019, 2018, and 2017, respectively.

During the year ended December 31, 2019, the Company disposed of or retired certain fully depreciated computer equipment, software, and internally developed software with an original cost basis of \$52.1 million, that resulted in the recognition of an immaterial gain.

Amortization of capitalized facility leases was \$1.0 million for the years ended December 31, 2018 and 2017.

TrueCar, Inc.

Notes to Consolidated Financial Statements (Continued)

7. Intangible Assets

Intangible assets consisted of the following at December 31, 2019 and 2018 (in thousands, except years):

	At December 31, 2019		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Acquired technology and domain name	\$ 40,990	\$ (27,560)	\$ 13,430
Customer relationships	7,800	(6,175)	1,625
Trade names	4,900	(2,695)	2,205
Total	\$ 53,690	\$ (36,430)	\$ 17,260

	At December 31, 2018		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Acquired technology and domain name	\$ 40,990	\$ (22,946)	\$ 18,044
Customer relationships	7,800	(4,925)	2,875
Trade names	4,900	(2,368)	2,532
Total	\$ 53,690	\$ (30,239)	\$ 23,451

Amortization expense by asset type for the years ended December 31, 2019, 2018, and 2017 is shown below (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Acquired technology and domain name	\$ 4,614	\$ 3,034	\$ 3,035
Customer relationships	1,250	500	500
Trade names	327	327	327
Total amortization	\$ 6,191	\$ 3,861	\$ 3,862

Expected amortization expense with respect to intangible assets at December 31, 2019 for each of the five years through December 31, 2024 and thereafter is as follows (in thousands):

Years ended December 31,	
2020	\$ 6,187
2021	4,572
2022	1,977
2023	1,977
2024	1,977
Thereafter	570
Total amortization expense	\$ 17,260

TrueCar, Inc.

Notes to Consolidated Financial Statements (Continued)

8. Credit Facility

The Company is party to a third amended and restated loan and security agreement (the “Credit Facility”) with a financial institution that provides for advances under a \$35.0 million revolving line of credit. In February 2018, the Company entered into a first amendment to the Credit Facility that, among other things, extended the expiration of the Credit Facility from February 18, 2018 to February 18, 2021. In December 2018, the Company entered into a second amendment to the Credit Facility to make certain other revisions that do not alter the borrowing amounts, interest rates, or required ratios. The Credit Facility provides a \$10.0 million subfacility for the issuance of letters of credit and contained 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 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 0.0% to 0.20% per annum based on the Company’s adjusted quick ratio.

The Credit Facility requires the Company to maintain an adjusted quick ratio of at least 1.5 to 1.00 on the last day of each quarter. If the adjusted quick ratio is not maintained, the Credit Facility requires the Company to maintain, as measured at each quarter end, a maximum consolidated leverage ratio 3.00 or 2.50 to 1.00, and a fixed charge coverage ratio of at least 1.25 to 1.00.

Consolidated leverage ratio is a ratio of all funded indebtedness, including all capital lease obligations, plus all letters of credit under the facility to the Company’s Adjusted EBITDA for the trailing twelve months. Fixed charge coverage ratio is the ratio of the Company’s Adjusted EBITDA minus cash income taxes to its cash interest payments for the trailing twelve months. The Credit Facility also limits the Company’s ability to pay dividends. At December 31, 2019 and 2018, the Company was in compliance with the Credit Facility’s financial covenants.

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

At December 31, 2019 and 2018, the Company had no outstanding amounts under the Credit Facility. At December 31, 2019 and 2018, the amounts available were \$31.9 million and \$31.0 million, reduced for letters of credit issued and outstanding under the subfacility of \$3.1 million and \$4.0 million, respectively.

TrueCar, Inc.**Notes to Consolidated Financial Statements (Continued)****9. Commitments and Contingencies****Lease Exit Costs**

The Company had historically accounted for exit and disposal activities through the use of a lease exit liability. Under the new leasing guidance, the remaining lease exit liability was eliminated and the remaining balance was included as an adjustment to reduce the ROU assets for the relevant properties. Refer to Note 3 for further details. At December 31, 2018, the lease exit liability was \$0.8 million.

Reorganization and Executive Departures

In January 2019, the Company initiated and completed a restructuring plan (the "Reorganization Plan") to improve efficiency and reduce expenses. The Company recorded severance costs of approximately \$3.3 million in the first quarter of 2019 in connection with the Reorganization Plan. Of the total, the Company recorded \$0.4 million in cost of revenue, \$1.1 million in sales and marketing, \$1.6 million in technology and development and \$0.2 million in general and administrative expenses within the Company's consolidated statements of comprehensive loss during the year ended December 31, 2019. The Company does not expect to incur significant additional charges in future periods related to this Reorganization Plan.

In the second quarter of 2019, the Company incurred severance costs totaling \$4.6 million associated with the separations of executive-level employees, including its former chief executive officer. Of the total, the Company recorded \$0.4 million in sales and marketing, \$0.9 million in technology and development and \$3.3 million in general and administrative expenses in the Company's consolidated statements of comprehensive loss during the year ended December 31, 2019.

The following table presents a roll forward of the severance liability for the year ended December 31, 2019 (in thousands):

	Severance Liability	
Accrual at December 31, 2018	\$	—
Expense		7,871
Cash Payments		(7,843)
Accrual at December 31, 2019	\$	28

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.

TrueCar, Inc.**Notes to Consolidated Financial Statements (Continued)*****Stockholder Litigation***Milbeck Federal Securities Litigation

On March 30, 2018, Leon Milbeck filed a putative securities class action against the Company in the U.S. District Court for the Central District of California (the “Milbeck Federal Securities Litigation”). On June 27, 2018, the court appointed the Oklahoma Police Pension and Retirement Fund as lead plaintiff, who filed an amended complaint on August 24, 2018. The amended 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 the Company’s 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 and that the defendants made actionable misstatements in violation of Section 11 of the Securities Act in connection with our secondary offering that occurred during the class period. The amended complaint named the Company, certain of its then-current and former officers and directors and the underwriters for its secondary offering 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, which the court denied on February 5, 2019. On May 9, 2019, the court granted the lead plaintiff’s motion for class certification. On August 2, 2019, the parties entered into an agreement to settle the Milbeck Federal Securities Litigation on a class-wide basis for \$28.25 million, all of which was paid by the Company’s directors’ and officers’ liability insurance. On October 15, 2019, the court granted preliminary approval of the proposed settlement, and on January 27, 2020, the court issued a minute order granting final approval to the settlement. As a result, the Milbeck Federal Securities Litigation is resolved. Because the settlement was fully funded by the Company’s directors’ and officers’ liability insurance, the Company removed the settlement liability and offsetting insurance receivable of \$28.25 million from its consolidated balance sheet at December 31, 2019.

California Derivative Litigation

On March 6, 2019, the Company, certain of its then-current and former officers and directors and USAA were named as defendants in a derivative action filed by Dean Drulias nominally on behalf of the Company in the U.S. District Court for the Central District of California (the “California Derivative Litigation”). On March 12, 2019, the plaintiff filed an amended complaint, which alleged breach of fiduciary duties, unjust enrichment and violation of Section 10(b) and Section 29(b) of the Exchange Act and sought contribution for damages awarded against us in the Milbeck Federal Securities Litigation and an award of unspecified damages, interest, attorney’s fees and equitable relief based on substantially the same factual allegations as the Milbeck Federal Securities Litigation. On May 13, 2019, the Company filed motions to dismiss the amended complaint on the grounds of *forum non conveniens* based upon the exclusive forum provision of the Company’s certificate of incorporation, failure to make a pre-suit demand on the Company’s board of directors and failure to state a claim upon which relief may be granted. On October 23, 2019, the court granted the Company’s motion to dismiss the state-law claims with prejudice on the grounds of *forum non conveniens* and granted the Company’s motion to dismiss the federal-law claims without prejudice for failure to state a claim. In light of these rulings, the court declined to address the Company’s motion to dismiss for failure to show pre-suit demand futility. The court permitted the plaintiff to amend his complaint with respect to the dismissed federal-law claims, but on November 5, 2019, he informed the court that he declined to do so and stated his intent to appeal the court’s ruling. On November 18, 2019, the court entered judgment in favor of the defendants and against the plaintiff, and on December 13, 2019, the plaintiff appealed that judgment. The Company believes that the appeal 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 December 31, 2019 as the Company does not believe a loss is probable or reasonably estimable.

TrueCar, Inc.

Notes to Consolidated Financial Statements (Continued)

Delaware Consolidated Derivative Litigation

In August 2019, three purported stockholder derivative actions were filed in Delaware alleging a variety of claims nominally on the Company's behalf arising out of alleged breaches of fiduciary duty under Delaware law based upon substantially the same factual allegations as the Milbeck Federal Securities Litigation. The complaints named the Company, certain of its then-current and former directors and officers, USAA and, in one of the actions, certain entities affiliated with USAA and certain of our current and former directors as defendants. On October 7, 2019, the Delaware Court of Chancery consolidated the cases into a single action in that court bearing the caption *In re TrueCar, Inc. Stockholder Derivative Litigation* (the "Delaware Consolidated Derivative Litigation"). On November 6, 2019, the plaintiffs filed a consolidated complaint against all of the defendants named in the prior actions, asserting claims for breach of fiduciary duty, unjust enrichment, contribution and indemnification against the Company's current and former officers and directors, and claims for aiding and abetting breaches of fiduciary duty against the entities affiliated with USAA and with certain of the Company's current and former directors. The plaintiffs seek an award of damages against the defendants on behalf of the Company and various alleged corporate governance reforms. On December 19, 2019, the defendants filed motions to dismiss for failure to make a pre-suit demand. The Company believes that the consolidated 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 December 31, 2019 as the Company does not believe a loss is probable or reasonably estimable.

Lee Derivative Litigation

In December 2019, Sulgi Lee, a purported stockholder, filed a derivative action in the Delaware Court of Chancery alleging a variety of claims nominally on the Company's behalf arising out of alleged breaches of fiduciary duty under Delaware law based upon substantially the same factual allegations as the Milbeck Federal Securities Litigation. The complaint named the Company, certain of its then-current and former directors and officers and USAA as defendants. The plaintiff seeks an award of damages against the defendants on the Company's behalf and various alleged corporate governance reforms. The Company believes that the 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 December 31, 2019 as the Company does not believe a loss is probable or reasonably estimable.

Delaware Federal Derivative Litigation

In April 2019, the Company, certain of its then-current and former directors and officers and USAA were named as defendants in derivative actions nominally on behalf of the Company filed by Ara Afarian and Shelley Niemi in the U.S. District Court for the District of Delaware. The complaints alleged breach of Section 29(b) of the Exchange Act as well as breach of fiduciary duties and unjust enrichment and sought contribution for damages awarded against the Company in the Milbeck Federal Securities Litigation and an award of unspecified damages, interest, attorney's fees and equitable relief based on substantially the same factual allegations as the Milbeck Federal Securities Litigation. The Niemi complaint also sought rescission of certain contracts. On April 17, 2019, the cases were consolidated into a single action bearing the caption *In re TrueCar, Inc. Shareholder Derivative Litigation*. On September 4, 2019, the court granted the plaintiffs' unopposed motion to voluntarily dismiss the litigation without prejudice, meaning it could be re-filed at a later date. In light of the termination of the litigation on this basis, the Company has not recorded an accrual related to this matter as of December 31, 2019 as the Company does not believe a loss is probable.

The Lanham Act Litigation

On March 9, 2015, the Company was named as a defendant in a lawsuit purportedly filed on behalf of numerous automotive dealers who are not on the TrueCar platform 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 alleged 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 sought 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. On July 2, 2018, the Company filed a motion for summary judgment seeking dismissal of the amended complaint in its entirety. On March 27, 2019, the court granted in part and denied in part the Company's motion, allowing the plaintiffs to pursue disgorgement of the Company's profits on a deterrence theory but granting summary judgment to the Company on the other aspects of the plaintiffs' claims. On April 9, 2019, the

TrueCar, Inc.**Notes to Consolidated Financial Statements (Continued)**

Company filed a motion for reconsideration of the court's ruling, which the court granted on July 12, 2019. As a result, the court granted the Company's motion for summary judgment in its entirety as to the plaintiffs' Lanham Act claim. In light of the dismissal of the plaintiffs' sole federal claim, the court declined to exercise supplemental jurisdiction over the state-law claims alleged by the amended complaint and therefore dismissed them without prejudice, meaning that the state-law claims could be re-filed in state court at a later date. The plaintiffs did not appeal the dismissal of their claims, and the deadline for doing so passed in August 2019, so the NY Lanham Act Litigation is currently resolved. In light of the termination of the litigation, the Company has not recorded an accrual related to this matter as of December 31, 2019, as it does not believe a loss is probable.

The California Consumer Class Action

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 allegations that the Company was operating in the State of California as an unlicensed automobile dealer and autobroker as well as factual allegations similar to those asserted in the NY Lanham Act 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 July 13, 2016, the plaintiff amended his complaint. The amended complaint continued 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 retained the same proposed class definition as the initial complaint. Like the initial complaint, the amended complaint sought 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 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. On February 7, 2018, the plaintiff filed a motion for class certification, which the court denied on July 27, 2018. On September 26, 2018, the plaintiff appealed the trial court's denial of its motion for class certification, which the California Court of Appeal affirmed on December 16, 2019. On February 19, 2020, the plaintiff voluntarily dismissed the California Consumer Class Action. As a result, the California Consumer Class Action is resolved. In light of the termination of the litigation, the Company has not recorded an accrual related to this matter as of December 31, 2019, as it does not believe a loss is probable.

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. While the Company's future obligations under certain of these agreements may contain limitations on liability for indemnification, other agreements do not contain such limitations and under such agreements it is not possible to predict the maximum potential amount of future payments due to the conditional nature of the Company's obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the Company under such indemnities have not had a material effect on the Company's business, financial condition, results of operations or cash flows. Additionally, the Company does not believe that any amounts that it may be required to pay under these indemnities in the future will be material to the Company's business, financial position, results of operations, or cash flows.

TrueCar, Inc.**Notes to Consolidated Financial Statements (Continued)****Purchase Obligations**

At December 31, 2019, the Company had the following purchase obligations (in thousands):

	<u>Total</u>	<u>Less Than 1 Year</u>	<u>1 - 3 Years</u>	<u>3 - 5 Years</u>	<u>More Than 5 Years</u>
Purchase obligations	\$ 19,519	\$ 7,568	\$ 10,173	\$ 1,578	\$ 200

Purchase obligations include long-term agreements to purchase data information, software-related licenses, and support services, and other obligations that are enforceable and legally binding as of December 31, 2019. Purchase obligations exclude agreements that are cancellable without penalty.

TrueCar, Inc.**Notes to Consolidated Financial Statements (Continued)****10. Stockholders' Equity****Follow-on Public Offering**

On April 26, 2017, the Company entered into an underwriting agreement to sell up to 1,150,000 shares of its common stock at \$16.50 per share in a public offering (including shares subject to the underwriters' option to purchase additional shares). The Company sold 1,150,000 shares in the offering with aggregate net proceeds to the Company of \$17.4 million, net of underwriting discounts and commissions and offering costs of \$1.6 million. Selling stockholders party to the underwriting agreement also sold an aggregate of 9,200,000 shares of common stock in the offering (including shares subject to the underwriters' option to purchase additional shares). The Company did not receive any proceeds from the shares sold by the selling stockholders. The offering closed on May 2, 2017.

Warrants Issued to USAA

In May 2014, the Company extended our affinity group marketing agreement with USAA, the largest affinity partner and a significant stockholder of the Company. As part of the agreement, on May 1, 2014, the Company issued to USAA a warrant to purchase 1,458,979 shares of the Company's common stock, which will be exercisable in two tranches. The first tranche of 392,313 shares has an exercise price of \$7.95 per share and the second tranche of 1,066,666 shares has an exercise price of \$15.00 per share. The warrant becomes exercisable based on the achievement of performance milestones based on the level of vehicle sales of USAA members through the Company's auto buying platforms. The warrant terminates on the earlier of (i) the eighth anniversary of the date of issuance, (ii) the first anniversary of the termination of the USAA car-buying program, or (iii) the first anniversary of the date on which the Company no longer operates the USAA car-buying program. As a result, the Company expects the warrant to terminate on October 1, 2021. In addition, the agreement provides for the Company to spend marketing program funds with the actual level of marketing spend to be mutually agreed upon by USAA and the Company, subject to limits based on the number of actual vehicle sales generated through the affinity group marketing program (Note 15).

For the years ended December 31, 2019, 2018, and 2017, there was no warrant expense recognized.

At December 31, 2019, there were 509,642 shares that were earned and outstanding under the warrant with an additional 949,337 remaining shares that are available for issuance upon the achievement of minimum performance milestones.

Reserve for Unissued Shares of Common Stock

The Company is required to reserve and keep available out of its authorized but unissued shares of common stock such number of shares sufficient for the exercise of all outstanding warrants, plus shares granted and available for grant under the Company's equity incentive plans.

The number of shares of the Company's common stock reserved for these purposes at December 31, 2019 is as follows:

	Number of Shares
Outstanding stock options	10,625,980
Outstanding restricted stock units	5,890,992
Outstanding common stock warrants	1,458,979
Additional shares available for grant under the equity plan	10,521,842
Total	28,497,793

TrueCar, Inc.

Notes to Consolidated Financial Statements (Continued)

11. Stock-based Awards

The Company has four equity incentive plans: the Amended and Restated 2005 Stock Plan (the “2005 Plan”), the 2008 Stock Plan (the “2008 Plan”), the 2014 Equity Incentive Plan (the “2014 Plan”), and the 2015 Inducement Equity Incentive Plan (the “Inducement Plan”). In connection with the Company’s initial public offering in May 2014 (the “IPO”), the 2005 Plan and the 2008 Plan were terminated. Upon the IPO, the shares reserved for issuance under the 2014 Plan include (i) shares that have been reserved but not issued pursuant to any awards granted under the 2005 Plan, plus (ii) shares subject to stock options or similar awards granted under the 2005 Plan or the 2008 Plan that, after the registration date, expire or terminate without having been exercised in full and shares issued pursuant to awards granted under the 2005 Plan or the 2008 Plan are forfeited to or repurchased by the Company. In addition, the shares available for issuance under the 2014 Plan include an annual increase on January 1 of each year equal to the least of: (x) 10,000,000 shares; (y) 5% of the total outstanding shares of TrueCar common stock as of the last day of the previous fiscal year; or (z) such other amount as determined by the Company’s Board of Directors. As of December 31, 2019, the total number of shares available for future issuance under the 2014 Plan was 10,521,842 shares. In accordance with the evergreen provision, effective January 1, 2020, an additional 5,343,291 shares of common stock were authorized to be issued under the 2014 Plan. Under the Inducement Plan, there were 1,840,000 shares of common stock reserved for the issuance of nonqualified stock options. In December 2015, in conjunction with the hiring of the Company’s then president and CEO, the Company granted a stock option to purchase 1,840,000 shares of the Company’s common stock under the Inducement Plan that vest over a four year period and expire 10 years from the date of grant. There are no shares available for future issuance under the Inducement Plan.

Under the 2014 Plan, the Company has the ability to issue incentive stock options, nonstatutory stock options, restricted stock, restricted stock units, stock appreciation rights, performance units, and performance shares. The exercise price of stock options granted under the 2014 Plan must at least equal the fair market value of the Company’s common stock on the date of grant. Stock options granted generally vest monthly over a four year period and expire ten years from the date of grant. Restricted stock units generally vest quarterly over a four to five year period.

Stock Options

A summary of the Company’s stock option activity for the year ended December 31, 2019 is as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value ⁽¹⁾ (in millions)
Outstanding at December 31, 2018	14,114,651	\$ 12.32	7.0	
Granted	2,128,069	6.94		
Exercised	(364,525)	7.82		
Forfeited/expired	(5,252,215)	12.68		
Outstanding at December 31, 2019	<u>10,625,980</u>	\$ 11.22	5.2	\$ 0.3
Vested and expected to vest at December 31, 2019	<u>10,625,980</u>	\$ 11.22	5.2	\$ 0.3
Exercisable at December 31, 2019	<u>7,927,239</u>	\$ 11.18	4.2	\$ 0.2

(1) The aggregate intrinsic value represents the excess of the closing price of the Company’s common stock of \$4.75 on December 31, 2019 over the exercise price of in-the-money stock option awards.

At December 31, 2019, total remaining stock-based compensation expense for unvested option awards was \$12.5 million, which is expected to be recognized over a weighted-average period of 2.2 years.

The weighted-average grant-date fair value per share of options granted for the years ended December 31, 2019, 2018, and 2017 was \$3.97, \$4.60, and \$8.77, respectively. The Company recorded stock-based compensation expense for stock option awards of \$13.7 million, \$16.0 million, and \$17.3 million, for the years ended December 31, 2019, 2018, and 2017, respectively.

TrueCar, Inc.

Notes to Consolidated Financial Statements (Continued)

The total intrinsic value of options exercised in 2019, 2018, and 2017 was \$0.5 million, \$6.6 million, and \$120.4 million, respectively.

Restricted Stock Units

A summary of the Company's restricted stock unit ("RSU") activity for the year ended December 31, 2019 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested — December 31, 2018	5,375,963	\$ 11.01
Granted	5,436,368	6.36
Vested	(2,830,183)	9.44
Forfeited	(2,091,156)	9.63
Non-vested — December 31, 2019	<u>5,890,992</u>	\$ 7.96

The total fair market value of RSUs that vested for the years ended December 31, 2019, 2018, and 2017 was \$16.0 million, \$22.4 million, and \$25.6 million, respectively.

The weighted-average grant-date fair value of RSUs granted for the years ended December 31, 2019, 2018, and 2017 was \$6.36, \$10.00, and \$18.26, respectively. For the years ended December 31, 2019, 2018, and 2017, the Company recorded \$24.3 million, \$21.2 million, and \$14.9 million in compensation expense, respectively. At December 31, 2019, total remaining stock-based compensation expense for non-vested RSUs is \$43.8 million, which is expected to be recognized over a weighted-average period of 2.7 years.

Valuation Assumptions and Stock-based Compensation Cost

The fair value of stock options granted to employees is estimated on the grant date using the Black-Scholes option-pricing model. This valuation model requires the Company to make assumptions and judgments about the variables used in the calculation, including the expected term, the volatility of the Company's common stock, risk-free interest rate, and expected dividends. The Company uses the simplified method under the SEC's Staff Accounting Bulletin No. 107, *Share-Based Payment*, to calculate expected term for plain vanilla share options. The Company's computation of volatility is based on an average of the historical volatilities of the common stock of several entities with characteristics similar to those of the Company. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. The Company uses an expected dividend of zero, as it does not anticipate paying any dividends in the foreseeable future.

The fair value of each stock option award was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended December 31,		
	2019	2018	2017
Risk-free interest rate	2.32%	2.85%	1.89%
Expected term (years)	6.07	5.94	6.25
Expected volatility	60%	46%	47%
Dividend yield	—	—	—

As a result of the Company's early adoption of the revised share-based payment guidance in 2016, forfeitures are recognized as they occur. Prior to the adoption of this guidance, forfeitures were estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

TrueCar, Inc.**Notes to Consolidated Financial Statements (Continued)**

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

	Year Ended December 31,		
	2019	2018	2017
Cost of revenue	\$ 2,157	\$ 1,726	\$ 1,105
Sales and marketing	13,362	13,950	10,353
Technology and development	8,256	10,589	8,060
General and administrative	14,199	10,954	12,723
Total stock-based compensation expense	37,974	37,219	32,241
Amount capitalized to internal-use software	1,811	1,890	1,407
Total stock-based compensation cost	\$ 39,785	\$ 39,109	\$ 33,648

As referenced in Note 9, certain executive-level employees, including the Company's former chief executive officer, separated from the Company in the second quarter of 2019. Benefits provided associated with these terminations include severance payments, acceleration of certain equity awards and extension of the exercise period for certain vested stock options. As a result of these termination benefits, the Company recognized \$7.2 million in additional stock-based compensation expense for the year ended December 31, 2019.

TrueCar, Inc.

Notes to Consolidated Financial Statements (Continued)

12. Income Taxes

The components of the Company's income tax provision (benefit) are as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Current:			
Federal	\$ —	\$ —	\$ —
State	75	67	18
Total current provision	75	67	18
Deferred:			
Federal	173	(282)	410
State	41	38	40
Tax Act impact	—	—	(2,632)
Total deferred provision (benefit)	214	(244)	(2,182)
Total income tax provision (benefit)	\$ 289	\$ (177)	\$ (2,164)

The 2019 income tax provision of \$0.3 million primarily reflects the amortization of tax-deductible goodwill that is not an available source of income to realized deferred tax assets.

The 2018 income tax benefit of \$0.2 million primarily reflects decrease in valuation allowance in partial recognition of deferred tax assets associated with 2018 indefinite-lived net operating losses.

The 2017 income tax benefit of \$2.2 million included a \$2.6 million impact from the change in tax law. Of the \$2.6 million impact of the Tax Cuts and Jobs Act of 2017 (the "Tax Act"), \$1.2 million results from the remeasurement of our U.S. federal deferred tax assets and liabilities at the tax rate expected to apply when the temporary differences are realized/settled (remeasured at a rate of 21% versus 34% for the majority of the deferred tax assets and liabilities), and \$1.4 million resulted from the decrease in valuation allowance associated with the partial recognition of our tax-deductible goodwill amortization as an available source of income to realize certain indefinite-lived deferred tax assets.

The overall effective income tax rate differs from the statutory federal rate as follows:

	Year Ended December 31,		
	2019	2018	2017
Income tax benefit based on the federal statutory rate	21.0 %	21.0 %	34.0 %
State income taxes, net of federal benefit	(1.5)	1.4	9.4
Nondeductible expenses	(3.5)	(4.7)	(1.2)
Change in valuation allowance, excluding Tax Act impact	(4.5)	(14.2)	(130.0)
Stock-based compensation	(12.0)	(2.9)	86.5
Tax Act impact	—	—	7.5
Overall effective income tax rate	(0.5)%	0.6 %	6.2 %

TrueCar, Inc.**Notes to Consolidated Financial Statements (Continued)**

The components of deferred tax assets (liabilities) are as follows (in thousands):

	December 31,	
	2019	2018
Deferred income tax assets:		
Net operating loss carryforwards	\$ 103,188	\$ 101,763
Stock-based compensation	10,954	13,227
Accrued expenses	2,261	1,950
Research and development tax credits	569	569
Operating leases liabilities	10,724	—
Other	619	656
Gross deferred tax assets	128,315	118,165
Valuation allowance	(111,193)	(109,625)
Net deferred tax assets	17,122	8,540
Deferred tax liabilities:		
Property, equipment and software	(3,800)	(3,477)
Intangible assets and goodwill	(4,075)	(4,274)
Capitalized commissions	(692)	(791)
§481(a) Adjustment - ASC 606	(380)	(566)
Operating lease assets	(8,958)	—
Gross deferred tax liabilities	(17,905)	(9,108)
Total net deferred tax liabilities	\$ (783)	\$ (568)

The net deferred tax liability at December 31, 2019 and 2018 relates to amortization of tax-deductible goodwill that is not an available source of income to realize deferred tax assets. Accordingly, the net deferred tax liability does not reduce the need for a valuation allowance related to the Company's net deferred tax assets.

At December 31, 2019, the Company had federal and state net operating loss carryforwards of \$415.1 million and \$242.5 million, respectively. The Company's federal and state net operating loss carryforwards begin to expire in the years ending December 31, 2025 and 2020, respectively. At December 31, 2019, the Company had federal and state research and development tax credit carryforwards of approximately \$0.8 million and \$0.4 million, respectively. The federal tax credit carryforwards begin to expire in the year ending December 31, 2028. The state tax credit carryforward can be carried forward indefinitely.

The Internal Revenue Code of 1986, as amended (the "IRC"), imposes substantial restrictions on the utilization of net operating losses and other tax attributes in the event of an "ownership change" of a corporation. Accordingly, a company's ability to use pre-change net operating loss and research tax credits may be limited as prescribed under IRC Sections 382 and 383. Events that may cause a limitation in the amount of the net operating losses and credits that the Company uses in any one year include, but are not limited to, a cumulative ownership change of more than 50% over a three-year period. During 2019, the Company experienced a cumulative ownership change. This ownership change could have materially impaired the Company's ability to utilize its net operating losses and tax credits. Upon receipt of certain additional information from investors, the Company will determine the amount of potential limitation. Any decrease in deferred tax assets associated with these tax attributes would be fully offset by a corresponding decrease in our valuation allowance, with no net tax provision impact.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2019. Such objective evidence limits the ability to consider other subjective evidence such as its projections for future growth. On the basis of this evaluation, at December 31, 2019, a valuation allowance of \$111.2 million has been recorded since it is more likely than not that the deferred tax assets will not be realized.

TrueCar, Inc.

Notes to Consolidated Financial Statements (Continued)

The change in the valuation allowance for the years ended December 31, 2019, 2018, and 2017 is as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Valuation allowance, at beginning of year	\$ 109,625	\$ 107,046	\$ 115,689
Decrease in valuation allowance - ASC 606 impact	—	(1,457)	—
Increase in valuation allowance - operating lease impact	(915)	—	—
Valuation allowance, at beginning of year, as adjusted	\$ 108,710	\$ 105,589	\$ 115,689
Increase in valuation allowance, excluding Tax Act impact	2,483	4,036	45,512
Decrease in valuation allowance - federal tax rate change	—	—	(52,757)
Release of valuation allowance due to the Tax Act	—	—	(1,398)
Valuation allowance, at end of year	\$ 111,193	\$ 109,625	\$ 107,046

The \$2.5 million increase in valuation allowance is primarily related to an increase in the tax-effected amount of unrealized net operating loss carryforwards. It is reasonably possible that a material adjustment to the valuation allowance will occur within one year upon finalization of the Company's IRC Sections 382 and 383 analyses.

The following is a reconciliation of the total amounts of unrecognized tax benefits (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Unrecognized tax benefit, beginning of year	\$ (3)	\$ (3)	\$ 3
Additions for prior years' tax positions	—	—	1
Settlements with tax authorities	—	—	(7)
Unrecognized tax benefit, end of year	\$ (3)	\$ (3)	\$ (3)

The Company's policy is to recognize interest and penalties related to uncertain tax positions, if any, in the income tax provision. At December 31, 2019, no interest and penalties related to uncertain tax positions have been accrued.

The Company is subject to United States federal and state taxation. Due to the presence of net operating loss carryforwards, all income tax years remain open for examination by the Internal Revenue Service and various state taxing authorities. The Company is not currently under Internal Revenue Service or state tax examination.

TrueCar, Inc.**Notes to Consolidated Financial Statements (Continued)****13. Net Loss Per Share**

Basic earnings per share is calculated by dividing net income (loss) attributable to common stockholders by the weighted average number of shares of common stock outstanding, net of the weighted average unvested restricted stock subject to repurchase by the Company, if any, during the period. Diluted earnings per share is calculated by dividing the net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding, adjusted for the effects of potentially dilutive common stock, which are comprised of stock options, restricted stock units and stock warrants, using the treasury-stock method, and convertible preferred stock, using the if-converted method. Because the Company reported losses attributable to common stockholders for all periods presented, all potentially dilutive common stock is antidilutive for those periods.

The following table sets forth the computation of basic and diluted net loss per share attributable to common stockholders during the years ended December 31, 2019, 2018, and 2017 (in thousands, except per share data):

	Year Ended December 31,		
	2019	2018	2017
Net loss	\$ (54,890)	\$ (28,321)	\$ (32,849)
Weighted-average common shares outstanding	105,805	102,149	94,865
Net loss per share — basic and diluted	\$ (0.52)	\$ (0.28)	\$ (0.35)

The following table presents the number of anti-dilutive shares excluded from the calculation of diluted net loss per share attributable to common stockholders at December 31, 2019, 2018, and 2017 (in thousands):

	December 31,		
	2019	2018	2017
Options to purchase common stock	10,626	14,115	16,714
Common stock warrants	1,459	1,459	1,459
Unvested restricted stock units	5,891	5,376	4,284
Total shares excluded from net loss per share attributable to common stockholders	17,976	20,950	22,457

14. Employee Benefit Plan

The Company has a 401(k) Savings Retirement Plan that covers substantially all full-time employees who meet the plan's eligibility requirements and provides for an employee elective contribution. The Company made matching contributions to the plan of \$2.5 million, \$2.4 million, and \$2.3 million for the years ended December 31, 2019, 2018, and 2017, respectively.

15. 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 pursuant to which the Company operates its Auto Buying Program through a white-labeled website available to USAA's members. At the time that the Company entered into these arrangements, USAA met the definition of a related party. The Company has amounts due from USAA at December 31, 2019 and 2018 of \$0.2 million and \$0.3 million, respectively. In addition, the Company has amounts due to USAA at December 31, 2019 and 2018 of \$7.3 million and \$5.3 million, respectively. At December 31, 2019 and 2018, \$6.0 million and \$5.0 million, respectively, was included in accounts payable, while \$1.3 million and \$0.2 million, respectively, was included in accrued expenses and other current liabilities. The Company recorded sales and marketing expense of \$23.2 million, \$22.1 million, and \$16.5 million for the years ended December 31, 2019, 2018, and 2017, respectively, related to service arrangements entered into with USAA.

Transactions with Accu-Trade

During the first quarter of 2019, the Company became a 20% owner of Accu-Trade and accounts for the investment using the equity method, as the Company has significant influence over the investee. The Company had amounts due to Accu-Trade at December 31, 2019 of \$0.4 million. The Company recognized contra-revenue of \$1.2 million and cost of revenue of \$1.0 million during the year ended December 31, 2019 related to a software and data licensing agreement entered into with Accu-Trade.

16. Subsequent Events

The Company entered into a short-term agreement effective February 14, 2020 to extend its partnership with USAA Federal Savings Bank ("USAA FSB") to continue to power the USAA Car Buying Service through September 30, 2020. Revenue share from USAA FSB to the Company will remain the same as it was under the previous agreement. In addition, USAA FSB will pay the Company a \$20 million transition services fee that will be earned over the term of the agreement.

TrueCar, Inc.
Description of the Registrant's Securities

As of December 31, 2019, the only class of securities of TrueCar, Inc., or the Company, registered under Section 12 of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act, is our common stock, par value \$0.0001 per share, or the Common Stock. The following description of our Common Stock is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Amended and Restated Certificate of Incorporation, or the Charter, and our Amended and Restated Bylaws, or the Bylaws, each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this exhibit is a part. We encourage you to read the Charter, the Bylaws and the applicable provisions of the General Corporation Law of the State of Delaware, which we refer to as the DGCL, for additional information.

Authorized Capital Shares

Our authorized capital stock consists of 1,000,000,000 shares of Common Stock and 20,000,000 shares of preferred stock, par value \$0.0001 per share, or the Preferred Stock. As of December 31, 2019, the outstanding shares of the Common Stock are fully paid and nonassessable, and there are no outstanding shares of Preferred Stock.

Dividend Rights

Subject to any preferential rights of outstanding shares of Preferred Stock, holders of Common Stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors, which we refer to as the Board, out of legally-available funds. The Company has never declared or paid cash dividends on any of its capital stock and currently does not anticipate paying any cash dividends in the foreseeable future.

Voting Rights

Holders of Common Stock are entitled to one vote per share on all matters voted on by our stockholders, including the election of directors. Our Common Stock does not have cumulative voting rights. Under our Charter, the Board is classified and divided into three classes with staggered three-year terms. Only the directors in one class are subject to election by a plurality of the votes cast at each annual meeting of our stockholders.

Liquidation Rights

Subject to any preferential rights of outstanding shares of Preferred Stock, holders of Common Stock will share ratably in all assets legally available for distribution to our stockholders after the payment of our debts and other liabilities in the event of our dissolution or winding up.

Certain Anti-Takeover Provisions

Certain provisions of the Charter and the Bylaws that could have the effect of delaying, deferring or preventing a change in control of the Company are described in this section.

Classified Board of Directors

The Charter requires that the Board be classified into three classes of directors, with one-third of the directors up for election at each annual meeting. This provision could make it more difficult for stockholders to cause a change of control to occur if the incumbent members of the Board are opposed to doing so.

Effect of Preferred Stock

The Board is authorized to approve the issuance of one or more series of Preferred Stock without further authorization of our stockholders and to fix the number of shares, the designations, the relative rights and the limitations of any series of Preferred Stock. As a result, the Board, without stockholder approval, could authorize the issuance of Preferred Stock with voting, conversion and other rights that could proportionately reduce, minimize or otherwise adversely affect the voting power and other rights of holders of Common Stock or other series of Preferred Stock or that could have the effect of delaying, deferring or preventing a change in our control.

Advance Notice Provisions

The Bylaws provide for an advance notice procedure for stockholders to nominate persons to stand for election as a director or to bring other business before meetings of our stockholders. Any stockholder wishing to nominate persons to stand for election as a director or to bring other business before meetings must deliver advance written notice and certain other information to our secretary in accordance with the Bylaws. These provisions may preclude or deter some stockholders from bringing matters before, or making nominations for directors at, an annual meeting.

Action by Written Consent

The Charter provides that our stockholders may not take actions required or permitted to be taken by stockholders at a meeting of stockholders by written consent in lieu of a meeting. This provision may make it more difficult for stockholders to take action opposed by the Board.

Special Meetings

The Bylaws provide that only the Board, the chairman of the Board or our president and chief executive officer may call a special meeting of our stockholders. This provision may make it more difficult for stockholders to take action opposed by the Board.

Business Combination Statute

Section 203 of the DGCL, which restricts a wide range of transactions between a corporation and certain of its stockholders, applies to Delaware corporations unless they have expressly elected to opt out of its provisions in their certificate of incorporation or bylaws. Neither the Charter nor the Bylaws contains a provision electing to opt out of the application of Section 203 of the DGCL.

Under Section 203 of the DGCL, an “interested stockholder” is, generally, any person who beneficially owns, directly or indirectly, 15% or more of the corporation’s outstanding voting stock. Business combinations are broadly defined to include mergers or consolidations with, sales or other dispositions of more than 10% of the corporation’s assets to, certain transactions resulting in the issuance or transfer of any stock of the corporation or any subsidiary to, certain transactions resulting in an increase in the proportionate share of stock of the corporation or any subsidiary owned by or receipt of the benefit (other than proportionately as a stockholder) of any loans, advances or other financial benefits by, an interested stockholder.

Section 203 prevents an interested stockholder from engaging in a business combination with the corporation for three years from becoming an interested stockholder unless (a) the Board approved either the business combination or the transaction resulting in the person becoming an interested stockholder before the person became an interested stockholder; (b) on consummation of the transaction resulting in the person becoming an interested stockholder, that person owned at least 85% of the corporation’s voting stock (excluding, for purposes of determining the voting stock outstanding, but not the outstanding voting stock owned by the interested stockholder, shares owned by persons who are directors and also officers and shares owned by certain employee stock plans); or (c) the business combination is approved by the Board and authorized by the affirmative vote of at least 66 2/3% of the outstanding voting stock not owned by the interested stockholder.

Warrants and Rights

As of December 31, 2019, there was one outstanding warrant to purchase up to 1,458,979 shares of Common Stock held by the United Services Automobile Association. Additionally, at that date, there were 10,625,980 shares of Common Stock reserved for issuance pursuant to outstanding stock options, 5,890,992 shares of Common Stock reserved for issuance pursuant to restricted stock units and 10,521,842 shares of Common Stock reserved for issuance under the Company’s 2014 Equity Incentive Plan.

Listing

The Common Stock is traded on the Nasdaq Stock Market under the trading symbol “TRUE.”

Miscellaneous

The Common Stock has no sinking fund or redemption provisions or preemptive, conversion or exchange rights. Our Charter contains no restrictions on the alienability of the Common Stock. There are no provisions discriminating against any existing or prospective holder of the Common Stock as a result of such holder’s owning a substantial amount of securities.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-236326, No.333-229454, No. 333-222684, No. 333-215615, No. 333-209328, No. 333-202116 and No. 333-196017) of TrueCar, Inc. of our report dated February 27, 2020 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California

February 27, 2020

**Certification of Principal Executive Officer
Pursuant to
Securities Exchange Act Rules 13a-14(a) and 15d-14(a),
As Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Michael Darrow, certify that:

1. I have reviewed this Annual Report on Form 10-K of TrueCar, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2020

/s/ Michael Darrow

Michael Darrow

Interim President and Chief Executive Officer

(Principal Executive Officer)

**Certification of Principal Financial Officer
Pursuant to
Securities Exchange Act Rules 13a-14(a) and 15d-14(a),
As Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Noel Watson, certify that:

1. I have reviewed this Annual Report on Form 10-K of TrueCar, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2020

/s/ Noel Watson

Noel Watson

Chief Financial Officer and Chief Accounting Officer

(Principal Financial Officer and Principal Accounting Officer)

**CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER
AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of TrueCar, Inc. (the "Company") on Form 10-K for the annual period ended December 31, 2019, as filed with the Securities and Exchange Commission (the "Report"), Michael Darrow, as Interim President and Chief Executive Officer, and Noel Watson, as Chief Financial Officer and Chief Accounting Officer, of the Company, each hereby certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 27, 2020

By: _____ /s/ Michael Darrow

Michael Darrow
Interim President and Chief Executive Officer
(Principal Executive Officer)

Date: February 27, 2020

By: _____ /s/ Noel Watson

Noel Watson
Chief Financial Officer and Chief Accounting Officer
(Principal Financial Officer and Principal Accounting Officer)