TrueCar, Inc.
Form 10-Q
November 12, 2015

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

FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015
¨ 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
(800) 200-2000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
As of November 4, 2015, 82,686,487 shares of the registrant's common stock were outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

	September 30, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	$123,706	$147,539
Accounts receivable, net of allowances of $2,728 and $2,069 at September 30, 2015 and December 31, 2014, respectively (includes related party receivables of $1,078 and $1,865 at September 30, 2015 and December 31, 2014, respectively)	37,392	28,748
Prepaid expenses (includes related party prepaid expenses of $101 and $906 at September 30, 2015 and December 31, 2014, respectively)	5,076	5,193
Other current assets	1,848	3,040
Total current assets	168,022	184,520
Property and equipment, net	67,978	30,731
Goodwill	53,270	53,270
Intangible assets, net	24,848	27,949
Other assets	989	482
Total assets	$315,107	$296,952
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable (includes related party payables of $5,267 and $4,954 at September 30, 2015 and December 31, 2014, respectively)	$22,733	$12,826
Accrued employee expenses	5,798	14,245
Accrued expenses and other current liabilities (includes related party accrued expenses of $189 and $0 at September 30, 2015 and December 31, 2014, respectively)	13,309	11,783
Total current liabilities	41,840	38,854
Deferred tax liabilities	2,660	2,245
Lease financing obligations, net of current portion	27,020	6,093
Other liabilities	546	562
Total liabilities	72,066	47,754
Commitments and contingencies (Note 7)		
Stockholders' Equity		
Preferred stock — $0.0001 par value; 20,000,000 shares authorized at September 30, 2015 and December 31, 2014; no shares issued and outstanding at September 30, 2015 and December 31, 2014	—	—
Common stock — $0.0001 par value; 1,000,000,000 shares authorized at September 30, 2015 and December 31, 2014; 82,573,963 and 79,811,769 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	8	8
Additional paid-in capital	491,489	460,179
Accumulated deficit	(248,456)	(210,989)
Total stockholders' equity	243,041	249,198
Total liabilities and stockholders' equity	$315,107	$296,952

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues	$72,405	$56,751	$196,250	$151,178
Costs and operating expenses:				
Cost of revenue (exclusive of depreciation and amortization presented separately below; includes related party expenses of $0 and $405 for the nine months ended September 30, 2015 and 2014, respectively)	5,952	4,666	17,670	12,524
Sales and marketing (includes related party expenses of $7,701 and $6,700 for the three months ended September 30, 2015 and 2014, and $17,872 and $14,543 for the nine months ended September 30, 2015 and 2014, respectively)	43,969	36,399	116,135	97,458
Technology and development	12,340	10,906	33,079	26,751
General and administrative	16,467	14,919	53,643	42,873
Depreciation and amortization	4,477	3,388	12,521	9,474
Total costs and operating expenses	83,205	70,278	233,048	189,080
Loss from operations	(10,800)	(13,527)	(36,798)	(37,902)
Interest income	27	14	71	41
Interest expense	(159)	(27)	(322)	(327)
Other income	—	20	14	30
Loss before provision for income taxes	(10,932)	(13,520)	(37,035)	(38,158)
Provision for income taxes	173	120	432	437
Net loss	$(11,105)	$(13,640)	$(37,467)	$(38,595)
Net loss per share, basic and diluted	$(0.13)	$(0.18)	$(0.46)	$(0.56)
Weighted average common shares outstanding, basic and diluted	82,417	76,880	81,637	68,315
Other comprehensive loss:				
Comprehensive loss	$(11,105)	$(13,640)	$(37,467)	$(38,595)

See accompanying notes to condensed consolidated financial statements.

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TRUECAR, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands except share data)
(Unaudited)

	Common Stock Shares	Amount	APIC	Accumulated Deficit	Stockholders' Equity
Balance at December 31, 2014	79,811,769	$8	$460,179	$(210,989)	$249,198
Net loss	—	—	—	(37,467)	(37,467)
Stock-based compensation	—	—	27,215	—	27,215
Issuance of warrants and change in fair value of unvested warrants relating to marketing agreements	—	—	(788)	—	(788)
Net exercise of warrants to purchase common stock	959,676	—	—	—	—
Shares issued in connection with employee stock plans, net of shares withheld for employee taxes	1,802,518	—	4,883	—	4,883
Balance at September 30, 2015	82,573,963	$8	$491,489	$(248,456)	$243,041

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2015	2014
Cash flows from operating activities		
Net loss	$(37,467)	$(38,595)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	12,474	9,234
Deferred income taxes	415	438
Bad debt expense and other reserves	605	118
Stock-based compensation	26,151	20,978
Common stock warrant expense	(788)	8,343
Imputed interest on notes receivable	—	(3)
Interest income on notes receivable	—	(1)
Accretion of beneficial conversion feature on convertible notes payable and discount on revolving line of credit	—	236
Loss on disposal of fixed assets	177	243
Changes in operating assets and liabilities:		
Accounts receivable	(9,249)	(10,407)
Prepaid expenses	117	(2,695)
Other current assets	1,097	(601)
Other assets	(507)	(30)
Accounts payable	7,337	3,332
Accrued employee expenses	(8,387)	(479)
Accrued expenses and other liabilities	(1,694)	5,128
Other liabilities	7	(143)
Net cash used in operating activities	(9,712)	(4,904)
Cash flows from investing activities		
Change in restricted cash	—	2,000
Purchase of property and equipment	(19,626)	(12,324)
Purchase of intangible assets	—	(365)
Notes receivable from related parties	—	(60)
Repayment of notes receivable from related parties	—	3,761
Net cash used in investing activities	(19,626)	(6,988)
Cash flows from financing activities		
Proceeds from initial public offering, net of underwriting discounts and offering costs	—	69,702
Proceeds from revolving line of credit	—	5,000
Repayments under credit agreement	—	(5,000)
Proceeds from exercise of common stock options	5,566	1,909
Exercise of warrants	—	9,461
Taxes paid related to net share settlement of equity awards	(683)	—
Proceeds from financing obligation drawdown	622	—
Net cash provided by financing activities	5,505	81,072
Net (decrease) increase in cash and cash equivalents	(23,833)	69,180
Cash and cash equivalents at beginning of period	147,539	43,819
Cash and cash equivalents at end of period	$123,706	$112,999

Supplemental disclosures of non-cash activities		
Recognition of leased facility asset acquired and lease financing obligation	23,349	5,970
Stock-based compensation capitalized for software development	1,064	947
Capitalized assets included in accounts payable, accrued employee expenses and other accrued expenses	4,313	471
Deferred offering costs included in accounts payable and accrued expenses	—	58

See accompanying notes to condensed consolidated financial statements.

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

1. Organization and Nature of Business

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

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company's unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and applicable rules and regulations of the U.S. Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-Q and Article 10-1 of Regulation S-X. Accordingly, some information and footnote disclosures required by GAAP for complete financial statements have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements and notes have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2014 and include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the interim periods presented.

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

Use of Estimates

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

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Segments

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

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

Recent Accounting Pronouncements

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

In September 2015, the Financial Accounting Standards Board ("FASB") issued new guidance regarding business combinations to simplify measurement-period adjustments. Under this guidance, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This guidance also requires acquirers to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current period earnings by line item that would have been recorded in previous reporting periods. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2015 and must be applied prospectively. The adoption of this guidance is not expected to have an impact on the Company’s consolidated financial statements.

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

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

In May 2014, the FASB issued guidance related to revenue from contracts with customers. Under this guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The updated standard will replace all existing revenue recognition guidance under GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. In August 2015, the FASB deferred the effective date to January 1, 2018, with early adoption beginning January 1, 2017. The Company is evaluating the impact of adopting this guidance on its consolidated financial statements.

3. Fair Value Measurements

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

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

- Level 1 — Quoted prices in active markets for identical assets or liabilities or funds.
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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.

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The carrying amounts of cash equivalents, accounts receivable, prepaid and other current assets, accounts payable, and accrued expenses and other current liabilities approximate fair value because of the short maturity of these items.
The following table summarizes the Company's financial assets measured at fair value on a recurring basis at September 30, 2015 and December 31, 2014 by level within the fair value hierarchy. Financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

	At September 30, 2015		At December 31, 2014	
	Level 1	Total Fair Value	Level 1	Total Fair Value
Cash equivalents	$122,979	$122,979	$145,284	$145,284
Total Assets	$122,979	$122,979	$145,284	$145,284

4. Property and Equipment, net

Property and equipment consisted of the following at September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Computer equipment, software, and internally developed software	$50,718	$37,110
Furniture and fixtures	3,124	2,335
Leasehold improvements	5,245	4,611
Capitalized facility leases	36,233	6,599
	95,320	50,655
Less: Accumulated depreciation	(27,342)	(19,924)
Total property and equipment, net	$67,978	$30,731

The Company is considered the owner, for accounting purposes only, of one of its Santa Monica, California leased office spaces and of its San Francisco, California leased office space (collectively, the "Premises") as it has taken on certain risks of construction build cost overages above normal tenant improvement allowances. Accordingly, at September 30, 2015 and December 31, 2014, the Company has capitalized $36.2 million and $6.6 million, respectively, related to the Premises, which represents the estimated fair value of the leased properties, additions for capitalized interest incurred during the construction periods, and capitalized costs related to improvements to the building. For the three and nine months ended September 30, 2015, the Company capitalized approximately $0.5 million and $1.6 million of interest costs related to the Premises, respectively. Additionally, at September 30, 2015 and December 31, 2014, the Company recognized a corresponding lease financing obligation of approximately $28.9 million and $6.6 million, respectively. Refer to Note 7 for additional information.

Included in the table above are property and equipment of $37.4 million and $8.1 million at September 30, 2015 and December 31, 2014, respectively, which are capitalizable, but had not yet been placed in service. The $37.4 million balance at September 30, 2015 was comprised primarily of the Santa Monica capitalized facility lease of $27.6 million. The $8.1 million balance at December 31, 2014 was comprised primarily of the San Francisco capitalized facility lease of $6.6 million.

Total depreciation and amortization expense of property and equipment was $3.4 million and $2.4 million for the three months ended September 30, 2015 and 2014, respectively. Total depreciation and amortization expense of property and equipment was $9.4 million and $6.2 million for the nine months ended September 30, 2015 and 2014, respectively.

Amortization of internal use capitalized software development costs was $2.4 million and $1.7 million for the three months ended September 30, 2015 and 2014, respectively. Amortization of internal use capitalized software development costs was $6.4 million and $3.9 million for the nine months ended September 30, 2015 and 2014, respectively.

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5. Intangible Assets

Intangible assets consisted of the following at September 30, 2015 and December 31, 2014 (in thousands):

	At September 30, 2015		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Acquired technology and domain name	$31,090	$(13,073)	$18,017
Customer relationships	6,300	(3,062)	3,238
Tradenames	4,900	(1,307)	3,593
Total	$42,290	$(17,442)	$24,848

	At December 31, 2014		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Acquired technology and domain name	$31,090	$(10,788)	$20,302
Customer relationships	6,300	(2,491)	3,809
Tradenames	4,900	(1,062)	3,838
Total	$42,290	$(14,341)	$27,949

Amortization expense for the three months ended September 30, 2015 and 2014 was $1.0 million and $1.0 million, respectively. For the nine months ended September 30, 2015 and 2014, amortization expense was $3.1 million and $3.2 million, respectively.

Amortization expense with respect to intangible assets at September 30, 2015 for each of the five years through December 31, 2019 and thereafter is as follows (in thousands):

Three months ending December 31, 2015	$1,033
2016	4,041
2017	3,862
2018	3,861
2019	3,791
Thereafter	8,260
Total amortization expense	$24,848

6. Credit Facility

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

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

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

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

Third Amended Credit Facility requires the Company to maintain an adjusted quick ratio of at least 1.5 to 1 on the last day of each quarter. If this adjusted quick ratio is not maintained, then the facility requires the Company to maintain, as measured at each quarter end, a maximum consolidated leverage ratio of 3.00 or 2.50 to 1.00, and a fixed charge coverage ratio of at least 1.25 to 1.00.

Consolidated leverage ratio is a ratio of all funded indebtedness, including all capital lease obligations, plus all letters of credit under the facility to the Company's Adjusted EBITDA for the trailing twelve months. Fixed charge coverage ratio is the ratio of our Adjusted EBITDA less cash paid for income taxes to our cash paid for interest plus capital expenditures for the trailing twelve months. This credit facility also limits the Company's ability to pay dividends. At September 30, 2015, the Company was in compliance with all financial covenants.

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

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

7. Commitments and Contingencies

Office Lease Commitments

At September 30, 2015, the Company had various non-cancellable leases related to the Company's office facilities which expire through 2030.

The Company recorded rent expense of $1.2 million and $0.8 million for the three months ended September 30, 2015 and 2014, respectively. For the nine months ended September 30, 2015 and 2014, total rent expense was $3.2 million and $2.1 million, respectively.

San Francisco Office Lease

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

The Company concluded that it was deemed the owner (for accounting purposes only) of the San Francisco Office during the construction period under build-to-suit lease accounting. As the Company assumed control of the construction project in the third quarter of 2014, the Company recorded the fair value of the leased property in "Property and equipment, net" and a corresponding liability in "Lease financing obligations" on the accompanying consolidated balance sheets. The Company recognized increases in the asset as additional building costs were incurred during the construction period. Additionally, imputed interest during the construction period was capitalized. At September 30, 2015 and December 31, 2014, the Company has capitalized $8.7 million and $6.6 million, respectively, in "Property and equipment, net" and a corresponding current and non-current lease financing obligation of $6.8 million and $6.6 million, respectively.

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

Santa Monica Office Lease

In July 2014, the Company entered into a new facility lease in Santa Monica (the “Santa Monica Office”) with total future minimum lease commitments over fifteen years, beginning in January 2015, of $36.0 million. In connection with this

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lease, the Company obtained an irrevocable standby letter of credit in the amount of $3.5 million for the benefit of the landlord. Beginning October 1, 2019 through October 1, 2025, the letter of credit is subject to an annual reduction to as little as $1.2 million.

The Company has concluded that it is deemed the owner (for accounting purposes only) of the Santa Monica Office during the construction period under build-to-suit lease accounting. As the Company assumed control of the construction project in the first quarter of 2015, the Company recorded the fair value of the leased property in “Property and equipment, net” and a corresponding liability in “Lease financing obligations” on the accompanying consolidated balance sheets. The Company recognizes increases in the asset as additional building costs are incurred during the construction period. Additionally, imputed interest is capitalized during the construction period. At September 30, 2015, the Company has capitalized $27.6 million in “Property and equipment, net” and a corresponding current and non-current lease financing obligation of $22.1 million.

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

Other Lease Amendments and New Lease

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

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

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

Legal Proceedings

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

The Company filed a complaint against Sonic Automotive and Sonic Divisional Operations (collectively “Sonic”) on August 9, 2013 in the U.S. District Court for the Central District of California. The litigation concerns Sonic’s commercial use of the “True Price” mark. The Company was seeking an injunction prohibiting Sonic from using the “True Price” mark, as well as monetary damages incurred by the Company due to Sonic’s unlawful infringement. On July 29, 2015, the Company and Sonic reached an agreement in principle to settle the litigation and entered into a “Term Sheet” reflecting the material terms of settlement. On August 4, 2015, the Company entered into a settlement agreement with Sonic. Pursuant to the settlement agreement, Sonic will discontinue use of the “True Price” mark and has transferred all of its rights to that mark to the Company, and the lawsuit has been dismissed.

On March 9, 2015, the Company was named as a defendant in a lawsuit filed in the U.S. District Court in the Southern District of New York (the "NY Lanham Act Litigation"). The complaint in the NY Lanham Act Litigation, purportedly filed on behalf of numerous automotive dealers who are not participating on the TrueCar platform, alleges that the Company has violated the Lanham Act as well as various state laws prohibiting unfair competition and deceptive acts or practices related to the Company's advertising and promotional activities. The complaint seeks injunctive relief in addition to over $250 million in damages as a result of the alleged diversion of customers from the plaintiffs' dealerships to TrueCar Certified Dealers. On April 7, 2015, the Company filed an answer to the complaint. Thereafter, the plaintiffs amended their complaint, and on July 13, 2015, the Company filed a motion to dismiss the amended complaint. The Company believes that the amended complaint is without merit, and it intends to vigorously defend itself in this matter. Based on the preliminary nature of the proceedings in this

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case, the outcome of this legal proceeding, including the anticipated legal defense costs, remains uncertain; accordingly, the Company cannot predict the ultimate outcome, or reasonably estimate the probability of or the range of loss, if any, for this action. As a result, no loss accrual has been recorded in the Company’s consolidated financial statements related to this matter. If this matter is not resolved in the Company’s favor, losses arising from the results of litigation or settlements, as well as ongoing defense costs, could have a material adverse effect on the Company’s business, financial condition, results of operations and cash flows.

On May 20, 2015, the Company was named as a defendant in a lawsuit filed by the California New Car Dealers Association in the Superior Court for the County of Los Angeles (the "CNCDA Litigation"). The complaint in the CNCDA Litigation seeks declaratory and injunctive relief based on allegations that the Company is operating in the State of California as an unlicensed automobile dealer and autobroker. The complaint does not seek monetary relief. On July 20, 2015, the Company filed a "demurrer" to the complaint, which is a pleading that requests the court to dismiss the case. Thereafter, the plaintiffs amended their complaint, and on September 11, 2015, the Company filed a demurrer to the amended complaint. The Company believes that the amended complaint is without merit, and it intends to vigorously defend itself in this matter. Based on the preliminary nature of the proceedings in this case, the outcome of this legal proceeding, including the anticipated legal defense costs, remains uncertain; accordingly, the Company cannot predict the ultimate outcome or reasonably estimate the probability of or the range of loss, if any, for this action. As a result, no loss accrual has been recorded in the Company’s consolidated financial statements related to this matter. If this matter is not resolved in the Company’s favor, losses arising from the results of litigation or settlements, as well as ongoing defense costs, could have a material adverse effect on the Company’s business, financial condition, results of operations and cash flows.

On May 27, 2015, a purported securities class action complaint was filed in the U.S. District Court for the Central District of California (the “Federal Securities Litigation”) by Satyabrata Mahapatra naming the Company and two other individuals not affiliated with the Company as defendants. On June 15, 2015, the plaintiff filed a Notice of Errata and Correction purporting to name Scott Painter and Michael Guthrie as individual defendants in lieu of the two individual defendants named in the complaint. On October 5, 2015, the plaintiffs amended their complaint. As amended, the complaint in the Federal Securities Litigation seeks an award of unspecified damages, interest and attorneys' fees based on allegations that the defendants made false and/or misleading statements, and failed to disclose material adverse facts about the Company’s business, operations, prospects and performance. Specifically, the amended complaint alleges that during the putative class period, the defendants made false and/or misleading statements and/or failed to disclose that: (i) the Company’s business practices violated unfair competition and deceptive trade practice laws (i.e., the issues raised in the NY Lanham Act Litigation); (ii) the Company acts as a dealer and broker in car sales transactions without proper licensing, in violation of various states’ laws that govern car sales (i.e., the issues raised in the CNCDA Litigation); and (iii) as a result of the above, the Company’s registration statements, prospectuses, quarterly and annual reports, financial statements, SEC filings, press releases, and other statements and documents were materially false and misleading at times relevant to the amended complaint and putative class period. The amended complaint asserts a putative class period stemming from May 16, 2014 to July 23, 2015. On October 19, 2015, the Company filed a motion to dismiss the amended complaint. The Company believes that the complaint is without merit and it intends to vigorously defend itself in this matter. Based on the preliminary nature of the proceedings in this case, the outcome of this legal proceeding, including the anticipated legal defense costs, remains uncertain; accordingly, the Company cannot predict the ultimate outcome or reasonably estimate the probability of or the range of loss, if any, for this action. As a result, no loss accrual has been recorded in the Company’s consolidated financial statements related to this matter. If this matter is not resolved in the Company’s favor, losses arising from the results of litigation or settlements, as well as ongoing defense costs, could have a material adverse effect on the Company’s business, financial condition, results of operations and cash flows.

On July 30, 2015, the Company was named as a defendant in a lawsuit filed in the Superior Court for the County of Los Angeles by numerous automotive dealers who are participating on the TrueCar platform (the "Participating Dealer Litigation"). On September 9, 2015, the plaintiffs amended their complaint. Both as originally filed and as subsequently amended, the complaint in the Participating Dealer Litigation sought declaratory and injunctive relief based on allegations that the Company is engaging in unfairly competitive practices and is operating as an unlicensed automobile dealer and autobroker in contravention of various state laws. Neither the original nor amended complaint sought an award of money damages. On September 29, 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. Because this case is currently resolved, no loss accrual has been recorded in the Company’s consolidated financial statements related to this matter. If the Participating Dealer Litigation is re-filed at a later date or if additional similar litigation is filed against the Company, and if such litigation is not resolved in the Company's favor, losses arising from the results of litigation or settlements, as well as related defense costs or adverse changes in our dealer network, could have a material adverse effect on the Company’s business, financial condition, results of operations and cash flows.

On August 11, 2015, the Company, certain of its executives and directors, and the underwriters of the Company’s initial public offering and secondary offering were named as defendants in a putative class action lawsuit filed in California Superior

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Court under the federal securities laws (the "California State Court Securities Litigation"). The complaint filed by Ning Shen and William Fitzpatrick, alleged that the Company's registration statements in connection with the offerings contained false or misleading statements of material facts, and failed to disclose material adverse facts about the Company's business, operations, prospects, and performance. On September 2, 2015, following the Company's removal of the action from California state court to the U.S. District Court for the Central District of California, the plaintiffs voluntarily dismissed this lawsuit "without prejudice," which means that the California State Court Securities Litigation is currently resolved, but that it could be re-filed at a later date. Because this case is currently resolved, no loss accrual has been recorded in the Company's consolidated financial statements related to this matter. If the California State Court Securities Litigation is re-filed at a later date, or if additional similar litigation, such as the Federal Securities Litigation, is filed against the Company, and if such litigation is not resolved in the Company's favor, losses arising from the results of litigation or settlements, as well as ongoing defense costs, could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Employment Contracts

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

Indemnifications

In the ordinary course of business, the Company may provide indemnities of varying scope and terms to customers, vendors, lessors, investors, directors, officers, employees and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of such agreements, services to be provided by the Company, or from intellectual property infringement claims made by third-parties. These indemnifications may survive termination of the underlying agreement and the maximum potential amount of future payments the Company could be required to make under these indemnification provisions may not be subject to maximum loss provisions. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is indeterminable. To date, there has not been a material claim paid by the Company, nor has the Company been sued in connection with these indemnification arrangements. At September 30, 2015 and December 31, 2014, the Company has not accrued a liability for these guarantees, because the likelihood of incurring a payment obligation, if any, in connection with these guarantees is not probable or reasonably estimable.

8. Stockholders' Equity

Warrants to Purchase Common Stock

Warrants Issued to USAA

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

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

program (Note 12).
For the three months ended September 30, 2015 and 2014, the Company recognized expense of $0.1 million and $3.1 million related to warrants to purchase 39,999 shares and 245,837 shares of common stock that have been earned and are vested, respectively. For the nine months ended September 30, 2015 and 2014, the Company recognized expense of $0.2

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million and $5.1 million related to warrants to purchase 59,997 shares and 586,395 shares of common stock that have been earned and are vested, respectively.

Warrant Issued to Third Party Marketing Firm

On February 25, 2011, the Company entered into a media and marketing services agreement with a direct marketing firm. Under the arrangement, the marketing firm will provide media purchasing, production, advertising, and marketing services in connection with the advertising and marketing of the Company's services. In addition to cash consideration, the Company agreed to issue a warrant to the marketing firm to purchase up to 1,433,333 shares of the Company's common stock at a price of $6.02 per share. All shares under the warrant agreement were earned as of June 30, 2014 and remain outstanding at December 31, 2014. In March 2015, the warrant to purchase 1,433,333 shares of the Company's common stock was exercised through a net settlement election. The Company issued 959,676 shares of its common stock to the third party marketing firm.

For the nine months ended September 30, 2014, the Company recognized $2.3 million of expense related to 343,665 shares earned under the warrant. The expense has been reflected as sales and marketing expense on the accompanying consolidated statements of comprehensive loss.

Warrant Issued to Vulcan

In November 2013, in a private placement to Vulcan Capital Growth Equity LLC ("Vulcan"), the Company issued a warrant to purchase 666,666 shares of its common stock at an exercise price of $15.00 per share. The warrant is immediately exercisable and expires in November 2015. The warrant remains outstanding as of September 30, 2015.

Warrant Issued to Service Provider

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

For the three and nine months ended September 30, 2015, the Company recorded a reduction in warrant expense of $0.4 million and $1.0 million, respectively, due to the remeasurement to fair value of the unvested shares and vested shares earned during the period, which was primarily related to the reduction in the Company's stock price. The reduction in expense has been reflected as a reduction to sales and marketing expense on the accompanying consolidated statements of comprehensive loss. For the three and nine months ended September 30, 2014, the Company recognized expense of $0.5 million and $0.9 million, respectively. At September 30, 2015 and December 31, 2014, the shares earned under this warrant agreement totaled 133,333 shares and 33,333 shares, respectively.

9. Stock-based Awards

Stock Options

A summary of the Company's stock option activity for the nine months ended September 30, 2015 is as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)
Outstanding at December 31, 2014	25,589,876	$ 9.79	7.55
Granted	2,403,722	12.46	
Exercised	(1,492,738)	3.73	
Canceled/forfeited	(974,257)	11.19	
Outstanding at September 30, 2015	25,526,603	$ 10.34	7.00

At September 30, 2015, total remaining stock-based compensation expense for unvested stock option awards was $54.8 million, which is expected to be recognized over a weighted-average period of 2.7 years. For the three months ended

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September 30, 2015 and 2014, the Company recorded stock-based compensation expense for stock option awards of $6.2 million and $8.6 million, respectively. For the nine months ended September 30, 2015 and 2014, the Company recorded stock-based compensation expense for stock option awards of $20.5 million and $19.8 million, respectively.

Restricted Stock Units

Activity in connection with restricted stock units is as follows for the nine months ended September 30, 2015:

	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested — December 31, 2014	827,997	$12.36
Granted	1,333,168	12.06
Vested	(364,801)	14.58
Canceled/forfeited	(184,372)	11.38
Non-vested — September 30, 2015	1,611,992	$11.72

At September 30, 2015, total remaining stock-based compensation expense for non-vested restricted stock units is $16.6 million, which is expected to be recognized over a weighted-average period of 3.4 years. The Company recorded $1.4 million and $0.8 million in stock-based compensation expense for restricted stock units for the three months ended September 30, 2015 and 2014, respectively. The Company recorded $5.7 million and $1.2 million in stock-based compensation expense for restricted stock units for the nine months ended September 30, 2015 and 2014, respectively.

Stock-based Compensation Cost

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Cost of revenue	$217	$134	$581	$297
Sales and marketing	1,131	1,413	3,739	3,757
Technology and development	889	2,069	3,042	3,933
General and administrative	5,294	5,824	18,789	12,991
Total stock-based compensation expense	7,531	9,440	26,151	20,978
Amount capitalized to internal software use	389	331	1,064	947
Total stock-based compensation cost	$7,920	$9,771	$27,215	$21,925

10. Income Taxes

In determining quarterly provisions for income taxes, the Company uses the annual estimated effective tax rate applied to the actual year-to-date loss. The Company's annual estimated effective tax rate differs from the statutory rate primarily as a result of state taxes, tax amortization of goodwill and changes in the Company's valuation allowance. The Company recorded $0.2 million and $0.1 million income tax expense for the three months ended September 30, 2015 and 2014, respectively. The Company recorded $0.4 million income tax expense for the nine months ended September 30, 2015 and 2014.

There were no material changes to the Company's unrecognized tax benefits in the three and nine months ended September 30, 2015, and the Company does not expect to have any significant changes to unrecognized tax benefits through the end of the fiscal year. Due to the presence of net operating loss carryforwards, all income tax years remain open for examination by the Internal Revenue Service ("IRS") and various state taxing authorities. During the second quarter of 2015, the Company settled an IRS tax examination for the 2011 and 2012 tax years. Given the Company's net operating losses, the IRS tax examination adjustments did not result in a tax assessment. The Company believes its income tax accruals at September 30, 2015 are reasonable.

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11. Net Loss Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net loss	$(11,105)	$(13,640)	$(37,467)	$(38,595)
Weighted-average common shares outstanding	82,417	76,880	81,637	68,315
Net loss per share - basic and diluted	$(0.13)	$(0.18)	$(0.46)	$(0.56)

The following table presents the number of anti-dilutive shares excluded from the calculation of diluted net loss per share at September 30, 2015 and 2014 (in thousands):

	September 30,	
	2015	2014
Options to purchase common stock	25,527	26,428
Common stock warrants	2,486	3,942
Non-vested restricted stock awards	1,612	720
Total shares excluded from net loss per share	29,625	31,090

12. Related Party Transactions

Transactions with Stockholders

In October 2011, as part of the acquisition of ALG, the Company entered into various data licensing and transition services agreements with Dealertrack, a former significant stockholder of the Company. In the first quarter of 2014, Dealertrack divested its holdings in the Company and was no longer a related party. Costs under these agreements included in cost of revenue for the nine months ended September 30, 2014 were $0.4 million.

Service Provider

An executive officer of the Company is an officer of a firm that provides marketing services to the Company. For the three months ended September 30, 2015 and 2014, the Company recorded sales and marketing expense of $2.7 million and $1.0 million, respectively, related to this marketing firm. For the nine months ended September 30, 2015 and 2014, the Company recorded sales and marketing expenses of $6.8 million and $2.6 million, respectively. At September 30, 2015 and December 31, 2014, the Company recorded $0.1 million and $0.9 million in prepaid expenses related to this marketing firm. The Company had amounts due to this marketing firm of $0.2 million at September 30, 2015 and December 31, 2014. Additionally, for the three and nine months ended September 30, 2015, the Company capitalized as property and equipment amounts paid to this marketing firm of $0.2 million and $0.8 million, respectively. No amounts paid to this marketing firm were capitalized for the three and nine months ended September 30, 2014.

Transactions with USAA

A former member of the Company’s board of directors is the current Head of Corporate Development at USAA, the largest stockholder and most significant affinity marketing partner of the Company. The Company has entered into arrangements with USAA to operate its Auto Buying Program. The Company has amounts due from USAA at September 30, 2015 and December 31, 2014 of $1.1 million and $1.9 million, respectively. In addition, the Company has amounts due to USAA at September 30, 2015 and December 31, 2014 of $5.3 million and $4.7 million, respectively. The Company recorded sales and marketing expense of $5.0 million and $5.7 million for the three months ended September 30, 2015 and 2014, respectively, related to service arrangements entered into with USAA, including non-cash expense associated with warrants to purchase shares of common stock (Note 8). The Company recorded sales and marketing expenses of $11.0 million and $11.9 million for the nine months ended September 30, 2015 and 2014, respectively.

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13. Revenue Information

The CODM reviews separate revenue information for its Transaction and Forecasts, Consulting and Other service offerings. All other financial information is reviewed by the CODM on a consolidated basis. Data and other revenue as disclosed in periods prior to the second quarter of 2015 is now referred to as "forecasts, consulting and other revenue" as the Company believes this description is more accurate and reflective of the actual service offerings that the Company provides.

The following table presents the Company’s revenue categories during the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Transaction revenue	$67,441	$51,985	$182,117	$138,104
Forecasts, consulting and other revenue	4,964	4,766	14,133	13,074
Total revenues	$72,405	$56,751	$196,250	$151,178

14. Subsequent Events

In October 2015, the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") granted 1,686,875 restricted stock units with a weighted-average grant date fair value of $5.20 which vest quarterly over an approximate period of four years. Additionally, the Compensation Committee granted stock options to purchase 462,573 shares of the Company’s common stock at a weighted-average exercise price of $6.32 per share. The stock options vest over an approximate period of four years.

In November 2015, the Company committed to a plan to consolidate its Santa Monica real estate from five office locations to three locations. As part of this program, the Company will increase its Santa Monica real estate footprint from 68,000 square feet to 76,000 square feet and create operational efficiencies by reducing its number of locations. The Company plans to exit three locations and move into one new location in the fourth quarter of 2015. In accordance with accounting for exit and disposal activities, the Company estimates that it will incur lease termination costs of approximately $1.7 million.

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

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

Overview

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

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

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

During the three months ended September 30, 2015, we generated revenues of $72.4 million and recorded a net loss of $11.1 million. Of the $72.4 million in revenue, $67.4 million or 93.1%, consisted of transaction revenues with the remaining $5.0 million, or 6.9%, derived primarily from forecasts, consulting and other revenue to the automotive and financial services industries. Revenues from forecasts and consulting services are derived primarily from the operations of our ALG subsidiary. Transaction revenues primarily consist of fees paid to us by our network of TrueCar Certified Dealers under our pay-for-performance business model where we generally earn a fee only when a TrueCar user purchases a car from them.

Our revenue continues to increase, and revenue in the third quarter of 2015 was higher than any prior quarter. However, the rate of growth in quarterly revenues in 2015 as compared to the same quarters in 2014 has slowed. We intend to increase the number of transactions on our platform, and thereby revenue, by re-focusing on the core experience to enhance the overall user experience and its effectiveness with consumers, providing consumers with the ability to control the entire car-buying experience using their mobile devices and highlighting the benefits of working with TrueCar Certified Dealers in a more direct way throughout the experience. Over time, we intend to increase monetization opportunities by introducing additional products and services to improve the car-buying and car-ownership experience.

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

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

In November 2014, we completed a follow-on public offering in which we sold 1,960,390 shares of common stock and selling stockholders sold 5,402,601 shares at a price of $17.00 per share. We received net proceeds of $30.8 million, after deducting underwriting discounts and commissions and offering expenses payable by us, from sales of our shares. We did not receive any proceeds from the sale of shares by selling stockholders.

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Key Metrics

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Average Monthly Unique Visitors	6,634,659	4,632,183	6,035,985	4,252,626
Units(1)	208,034	171,775	566,951	447,282
Monetization	$324	$303	$321	$309
Franchise Dealer Count	8,702	8,149	8,702	8,149
Transaction Revenue Per Franchise Dealer	$7,493	$6,567	$21,173	$18,663

(1) We issued full credits of the amount originally invoiced with respect to 3,319 and 2,056 units during the three months ended September 30, 2015 and 2014, respectively. For the nine months ended September 30, 2015 and 2014, we issued full credits of the amount originally invoiced with respect to 8,880 and 6,254 units, respectively. The number of units has not been adjusted downwards related to units credited as discussed in the description of the unit metric, below.

Average Monthly Unique Visitors

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

The number of average monthly unique visitors increased 43.2% to approximately 6.6 million in the three months ended September 30, 2015 from approximately 4.6 million in the same period of 2014. The number of average monthly unique visitors increased 41.9% to approximately 6.0 million in the nine months ended September 30, 2015 from approximately 4.3 million in the same period of 2014. We attribute the growth in our average monthly unique visitors principally to increased television, radio and digital marketing advertising campaigns that have led to increased brand awareness and also to increased efforts from our affinity group marketing partners to drive increased member awareness and traffic to our platform.

Units

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

On occasion we issue credits to our TrueCar Certified Dealers with respect to units sold. However, we do not adjust our unit metric for these credits as we believe that in substantially all cases a vehicle has in fact been purchased through our platform given the high degree of accuracy of our sales matching process. Credits are most frequently issued to a dealer that claims that it had a pre-existing relationship with a purchaser of a vehicle, and we determine whether we will issue a credit based on a number of factors, including the facts and circumstances related to the dealer claim and the level of claim activity at the dealership. In most cases, we issue credits in order to maintain strong business relations with the dealer and not because we have made an erroneous sales match or billing error.

The number of units increased 21.1% to 208,034 in the three months ended September 30, 2015 from 171,775 in the three months ended September 30, 2014. The number of units increased 26.8% to 566,951 in the nine months ended September 30, 2015 from 447,282 in the same period of the prior year. We attribute this growth in units to the effectiveness of our increased marketing activities, product enhancements, the growing number and geographic coverage of TrueCar Certified Dealers in our network, and the overall growth in new car sales in the automotive industry.

Monetization

We define monetization as the average transaction revenue per unit, which we calculate by dividing all of our transaction revenue in a given period by the number of units in that period. Our monetization increased 6.9% to $324 during the three months ended September 30, 2015 from $303 for the same period in 2014. For the nine months ended September 30, 2015, our monetization increased 3.9% to $321 from $309 for the same period in 2014. The increases in monetization are primarily a result of improved subscription pricing optimization and growth in used mix, the independent dealer channel, and in revenue from automobile manufacturers, known in the industry as OEMs. We expect our monetization to be affected in the future by changes in our pricing structure, the unit mix between new and used cars, with used cars currently providing higher monetization, and by the introduction of new products and services.

Franchise Dealer Count

We define franchise dealer count as the number of franchise dealers in the network of TrueCar Certified Dealers at the end of a given period. This number is calculated by counting the number of brands of new cars sold by dealers in the TrueCar Certified Dealer network at their locations, and includes both single-location proprietorships as well as large consolidated dealer groups. We view our ability to increase our franchise dealer count as an indicator of our market penetration and the likelihood of converting users of our platform into unit sales. Our TrueCar Certified Dealer network includes non-franchised dealers that primarily sell used cars and are not included in franchise dealer count. Our franchise dealer count was 8,702 at September 30, 2015, an increase from 8,149 at September 30, 2014, but a decrease from 9,300 at June 30, 2015. The largest dealer group in our network removed 279 stores from our program in July 2015. For the quarter overall, we had a net dealer loss of 600 franchise dealers, or approximately 6.4% of the network.

Transaction Revenue Per Franchise Dealer

We define transaction revenue per franchise dealer as transaction revenue in a given period divided by the average franchise dealer count in that period. Our transaction revenue per franchise dealer increased 14.1% to $7,493 during the three months ended September 30, 2015 from $6,567 for the same period in 2014. For the nine months ended September 30, 2015, our transaction revenue per franchise dealer increased to $21,173 from $18,663 in the same period of the prior year, reflecting an increase of 13.4%.

The increases in the current year period over the prior year period primarily reflect an increase in units which were attributable to an increase in marketing spend and an increase in the number of TrueCar Certified Dealers, platform and product enhancements, and the overall growth in sales of the automotive industry.

Non-GAAP Financial Measures

Adjusted EBITDA and Non-GAAP net income (loss) are financial measures that are not calculated in accordance with generally accepted accounting principles in the United States, or GAAP. We define Adjusted EBITDA as net loss adjusted to exclude interest income, interest expense, depreciation and amortization, non-cash warrant expense, transaction costs from acquisitions, change in fair value of contingent consideration, stock-based compensation, IPO-related expenses, ticker symbol acquisition costs, certain litigation costs and legal settlements, severance charges and income taxes. We define Non-GAAP net income (loss) as net loss adjusted to exclude stock-based compensation, non-cash warrant expense, transaction costs from acquisitions, change in the fair value of contingent consideration, IPO-related expenses, ticker symbol acquisition costs, certain litigation costs and legal settlements and severance charges. 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 have included Adjusted EBITDA and Non-GAAP net income (loss) herein as they are important measures used by our management and board of directors to assess our operating performance. We believe that using Adjusted

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

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

- Adjusted EBITDA does not reflect the payment or receipt of interest or the payment of income taxes;
- neither Adjusted EBITDA nor Non-GAAP net income (loss) reflects changes in, or cash requirements for, our working capital needs;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditures or any other contractual commitments;
- neither Adjusted EBITDA nor Non-GAAP net income (loss) reflects the cash costs to advance our claims in respect of our now settled litigation against Sonic Automotive Holdings, Inc. or the costs to defend ourselves in the New York Lanham Act Litigation, the CNCDA Litigation, the California State Court Securities Litigation, and the Federal Securities Litigation, as further described in Note 7 to our condensed consolidated financial statements included herein;
- neither Adjusted EBITDA nor Non-GAAP net income (loss) reflect a non-recurring legal settlement in favor of the Company;
- neither Adjusted EBITDA nor Non-GAAP net income (loss) reflects the cash severance costs due to certain former executives upon separation;
- neither Adjusted EBITDA nor Non-GAAP net income (loss) consider the potentially dilutive impact of shares issued or to be issued in connection with stock-based compensation or warrant issuances; and
- other companies, including companies in our own industry, may calculate Adjusted EBITDA and Non-GAAP net income (loss) differently from how we do, limiting its usefulness as a comparative measure.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Reconciliation of Net Loss to Adjusted EBITDA:				
Net loss	$(11,105)	$(13,640)	$(37,467)	$(38,595)
Non-GAAP adjustments:				
Interest income	(27)	(14)	(71)	(41)
Interest expense	159	27	322	327
Depreciation and amortization	4,477	3,388	12,521	9,474
Stock-based compensation	7,531	9,440	26,151	20,978
IPO-related expenses	—	—	—	3,717
Warrant expense (reduction)	(308)	3,675	(788)	8,289
Ticker symbol acquisition costs	—	—	—	803
Certain litigation costs (1)	1,180	864	5,742	1,239
Severance charges (2)	571	—	571	—
Provision for income taxes	173	120	432	437
Adjusted EBITDA	$2,651	$3,860	$7,413	$6,628

(1) The excluded amounts relate to legal costs incurred in connection with a claim we filed against Sonic Automotive Holdings, Inc., complaints filed by non-TrueCar dealers and the California New Car Dealers Association against TrueCar and securities class action lawsuits. We believe that their exclusion is appropriate to facilitate period-to-period operating performance comparisons.

(2) We incurred severance costs for four executive-level employees who terminated during the third quarter of 2015. We use Adjusted EBITDA and Non-GAAP net income (loss) as measures of our ongoing core operations and to evaluate comparative results period over period. We believe excluding the impact of these coincident terminations from the third quarter is consistent with our use of these non-GAAP measures as we do not believe they are a useful indicator of ongoing operating results. We expect to incur additional executive severance costs in the fourth quarter of 2015 in connection with the previously announced resignations of our Chief Executive Officer to be effective no later than December 31, 2015.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Reconciliation of Net Loss to Non-GAAP Net Income (Loss):				
Net loss	$(11,105)	$(13,640)	$(37,467)	$(38,595)
Non-GAAP adjustments:				
Stock-based compensation	7,531	9,440	26,151	20,978
IPO-related expenses	—	—	—	3,717
Warrant expense (reduction)	(308)	3,675	(788)	8,289
Ticker symbol acquisition costs	—	—	—	803
Certain litigation costs	1,180	864	5,742	1,239
Severance charges	571	—	571	—
Non-GAAP net (loss) income	$(2,131)	$339	$(5,791)	$(3,569)

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Components of Operating Results
Revenues
Our revenues are comprised of transaction revenue, and forecasts, consulting and other revenue.
Transaction Revenue. Revenue consists of fees paid by dealers participating in our network of TrueCar Certified Dealers. Dealers pay us these fees either on a per vehicle basis for sales to our users or in the form of a subscription arrangement. Subscription arrangements fall into three types: flat rate subscriptions, subscriptions subject to downward adjustment based on a minimum number of vehicle sales (“guaranteed sales”) and subscriptions subject to downward adjustment based on a minimum number of introductions (“guaranteed introductions”). Under flat rate subscription arrangements, fees are charged at a monthly flat rate regardless of the number of sales made to users of our platform by the dealer. For flat rate subscription arrangements, we recognize the fees as revenue over the subscription period on a straight line basis which corresponds to the period that we are providing the dealer with access to our platform. Under guaranteed sales subscription arrangements, fees are charged based on the number of guaranteed sales multiplied by a fixed amount per vehicle. To the extent that the actual number of vehicles sold by the dealers to users of our platform is less than the number of guaranteed sales, we provide a credit to the dealer. To the extent that the actual number of vehicles sold exceeds the number of guaranteed sales, we are not entitled to any additional fees. Under guaranteed introductions subscription arrangements, fees are charged based on a periodically-updated formula that considers, among other things, the introductions anticipated to be provided to the dealer. To the extent that the number of actual introductions is less than the number of guaranteed introductions, we provide a credit to the dealer. To the extent that the actual number of introductions provided exceeds the number guaranteed, we are not entitled to any additional fees. For guaranteed sales and guaranteed introductions subscription arrangements, we recognize revenue based on the lesser of (i) the actual number of sales generated or introductions delivered through our platform during the subscription period multiplied by the contracted price per sale/introduction or (ii) the straight-line of the subscription fee over the period over which the services are delivered.
In addition, we enter into arrangements with automobile manufacturers to promote the sale of their vehicles through the offering of additional consumer incentives to members of our affinity group marketing partners. These manufacturers pay us a per-vehicle fee for promotion of the incentive and we recognize the per-vehicle incentive fee when the vehicle sale has occurred between the member of our affinity group marketing partner and the dealer.
Forecasts, Consulting and Other Revenue. "Data and other revenue" as disclosed in periods prior to the second quarter of 2015 is now referred to as "forecasts, consulting and other revenue," as we believe this description is more accurate and reflective of the actual service offerings that we provide. We derive this type of revenue primarily from the provision of forecasts and consulting services to the automotive and financial services industries through our ALG subsidiary. The forecasts and consulting services that ALG provides typically relate to the determination of the residual value of an automobile at given future points in time. These residual values are used to underwrite automotive loans and leases to determine payments by consumers. In addition, financial institutions use this information to measure exposure and risk across loan, lease and fleet portfolios. Our customers generally pay us for these services as information is delivered to them.
Costs and Operating Expenses
Cost of Revenue (exclusive of depreciation and amortization). Cost of revenue includes expenses related to the fulfillment of our services, consisting primarily of data costs and licensing fees paid to third party service providers and expenses related to operating our website and mobile applications, including those associated with our data centers, hosting fees, data processing costs required to deliver introductions to our network of TrueCar Certified Dealers, employee costs related to dealer operations, sales matching, and employee and consulting costs related to delivering data and consulting services to our customers. Cost of revenue excludes depreciation and amortization of software costs and other hosting and data infrastructure equipment used to operate our platforms, which are included in the depreciation and amortization line item on our statement of comprehensive loss.
Sales and Marketing. Sales and marketing expenses consist primarily of: television and radio advertising; affinity group partner marketing fees, which also includes loan subvention costs where we pay certain affinity group marketing partners a portion of consumers’ borrowing costs for car loan products offered by these affinity group

marketing partners, and common stock warrants issued to USAA; marketing sponsorship programs; and digital customer acquisition. In addition, sales and marketing expenses include employee related expenses for sales, customer support, marketing and public relations employees, including salaries, bonuses, benefits, and stock-based compensation expenses; third-party contractor fees; and allocated overhead. Sales and marketing expenses also include costs related to common stock warrants issued to a third-party marketing firm and a service provider as part of our commercial arrangements with them. Marketing and advertising costs promote our services and are expensed as incurred, except for media production costs which are expensed the first time the advertisement is aired.

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

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

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

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

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

Provision for Income Taxes. We are subject to federal and state income taxes in the United States. We provided a full valuation allowance against our net deferred tax assets at September 30, 2015 and December 31, 2014 as it is more likely than not that some or all of our deferred tax assets will not be realized. As a result of the valuation allowance, our income tax benefit (or expense) is significantly less than the federal statutory rate of 34%. Our provision for income taxes in the three and nine months ended September 30, 2015 primarily reflected a tax expense associated with the amortization of tax deductible goodwill that is not an available source of income to realize deferred tax assets.

Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Consolidated Statements of Operations Data:				
Revenues	$72,405	$56,751	$196,250	$151,178
Costs and operating expenses:				
Cost of revenue (exclusive of depreciation and amortization presented separately below)	5,952	4,666	17,670	12,524
Sales and marketing	43,969	36,399	116,135	97,458
Technology and development	12,340	10,906	33,079	26,751
General and administrative	16,467	14,919	53,643	42,873
Depreciation and amortization	4,477	3,388	12,521	9,474
Total costs and operating expenses	83,205	70,278	233,048	189,080
Loss from operations	(10,800)	(13,527)	(36,798)	(37,902)
Interest income	27	14	71	41
Interest expense	(159)	(27)	(322)	(327)
Other income, net	—	20	14	30
Loss before provision for income taxes	(10,932)	(13,520)	(37,035)	(38,158)
Provision for income taxes	173	120	432	437

Net loss	$(11,105)	$(13,640)	$(37,467)	$(38,595)
Other Non-GAAP Financial Information:				
Adjusted EBITDA	$2,651	$3,860	$7,413	$6,628
Non-GAAP net income (loss)	$(2,131)	$339	$(5,791)	$(3,569)

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Comparison of the Three and Nine Months Ended September 30, 2015 and 2014

Revenues

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(dollars in thousands)			
Transaction revenue	$67,441	$51,985	$182,117	$138,104
Forecasts, consulting and other revenue	4,964	4,766	$14,133	$13,074
Revenues	$72,405	$56,751	$196,250	$151,178

Three months ended September 30, 2015 compared to three months ended September 30, 2014. The increase in our revenues of $15.7 million or 27.6%, for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014 primarily reflected the substantial increase in our transaction revenue. Transaction revenue and forecasts, consulting and other revenue comprised 93.1% and 6.9%, respectively, of revenues for the three months ended September 30, 2015 as compared to 91.6% and 8.4%, respectively, for the same period in 2014. The increase in transaction revenue for the three months ended September 30, 2015 primarily reflected a 21.1% increase in units due to the effectiveness of our increased marketing activities, product enhancements, the growing number and geographic coverage of TrueCar Certified Dealers in our network, and the overall growth in new car sales in the automotive industry. Our average monthly unique visitors grew 43.2% to 6.6 million for the three months ended September 30, 2015 from 4.6 million for the same period in 2014, reflecting our advertising campaigns which improved brand awareness and the visibility of our car buying services to our users and also the increased efforts from our affinity group marketing partners to drive increased member awareness and traffic to our platform. Our franchise dealer count grew 6.8% from 8,149 at September 30, 2014 to 8,702 at September 30, 2015, reflecting the ongoing adoption of our service among dealers. Our monetization increased 6.9% to $324 during the three months ended September 30, 2015 from $303 for the same period in 2014, primarily as a result of improved subscription pricing optimization and growth in used mix, the independent dealer channel, and in revenue from OEMs. Monetization may fluctuate from period to period as a result of changes in our estimated sales allowance, pricing and the unit mix between new and used cars. The 4.2% increase in forecasts, consulting and other revenue for the three months ended September 30, 2015 as compared to three months ended September 30, 2014 primarily reflected an increase in volume of portfolio risk analyses and residual value forecasts provided to customers.

Nine months ended September 30, 2015 compared to nine months ended September 30, 2014. The increase in our revenues of $45.1 million, or 29.8% for the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014 primarily reflected an increase in our transaction revenue. Transaction revenue and forecasts, consulting and other revenue comprised 92.8% and 7.2%, respectively, of the revenues for the nine months ended September 30, 2015 as compared to 91.4% and 8.6%, respectively, for the same period in 2014. The increase in transaction revenue for the nine months ended September 30, 2015 primarily reflected a 26.8% increase in units due to the effectiveness of our increased marketing activities, product enhancements, the growing number and geographic coverage of TrueCar Certified Dealers in our network, and the overall growth in new car sales in the automotive industry. Our average monthly unique visitors grew 41.9% to 6.0 million for the nine months ended September 30, 2015 from 4.3 million for the same period in 2014, reflecting our advertising campaigns which improved brand awareness and the visibility of our car buying services to our users and also the increased efforts from our affinity group marketing partners to drive increased member awareness and traffic to our platform. Our monetization increased 3.9% to $321 during the nine months ended September 30, 2015 from $309 for the same period in 2014, primarily as a result of improved subscription pricing optimization and growth in used mix, the independent dealer channel, and in revenue from OEMs. Monetization may fluctuate from period to period as a result of changes in our estimated sales allowance, pricing and the unit mix between new and used cars. The 8.1% increase in forecasts, consulting and other revenue for the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014 primarily reflected an increase in volume of portfolio risk analyses and residual value forecasts provided to customers.

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Costs and Operating Expenses

Cost of Revenue (exclusive of depreciation and amortization)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(dollars in thousands)			
Cost of revenue (exclusive of depreciation and amortization)	$5,952	$4,666	$17,670	$12,524
Cost of revenue (exclusive of depreciation and amortization) as a percentage of revenues	8.2 %	8.2 %	9.0 %	8.3 %

Three months ended September 30, 2015 compared to three months ended September 30, 2014. Cost of revenue increased $1.3 million or 27.6% for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014. The increase is primarily due to a $1.0 million increase in data costs and licensing fees to support the growth of our business and a $0.3 million increase in employee salaries and related expenses. Although we expect our cost of revenue to increase in dollar amount as we add additional data sources in the near term, we believe that the nature of our cost structure will enable us to realize operating leverage in our business over time.

Nine months ended September 30, 2015 compared to nine months ended September 30, 2014. Cost of revenue increased $5.1 million or 41.1% for the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014. The increase is primarily due to a $3.8 million increase in data costs and licensing fees to support the growth of our business, a $1.1 million increase in employee salaries and related expenses, and a $0.3 million increase in stock-based compensation due to additional stock-based awards.

Sales and Marketing Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(dollars in thousands)			
Sales and marketing expenses	$43,969	$36,399	$116,135	$97,458
Sales and marketing expenses as a percentage of revenues	60.7 %	64.1 %	59.2 %	64.5 %

Three months ended September 30, 2015 compared to three months ended September 30, 2014. Sales and marketing expenses increased $7.6 million or 20.8% for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014. The increase primarily reflected a $5.0 million increase in advertising and promotional activities primarily related to increased television, radio and online marketing spend to grow the TrueCar.com brand. Additionally, other increases in sales and marketing expenses include a $2.9 million increase in salaries and employee related expenses primarily due to our increased headcount and a $1.1 million increase in affinity partner marketing fees related to higher unit sales. These increases in sales and marketing expenses were partially offset by a decrease of $0.9 million in warrant expense related to the changes in the warrant's fair value during the service period, resulting primarily from a decrease in the Company's common stock price, and to fewer warrants earned under an affinity group marketing agreement. The increase was also partially offset by a $0.4 million decrease related to outsourced marketing services. Our sales and marketing expenses as a percentage of revenues decreased to 60.7% for the three months ended September 30, 2015 compared to 64.1% for the same period in 20