

TrueCar, Inc.
Form 10-K
March 12, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

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

Commission File Number: 001-36449

TRUECAR, INC.

(Exact name of registrant as specified in its charter)

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

120 Broadway, Suite 200

Santa Monica, California 90401

(Address of principal executive offices and Zip Code)

(800) 200 2000

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(Registrant's telephone number, including area code)

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

Common Stock, par value \$0.0001 per share (Title of each class)	The Nasdaq Global Select Market (Name of each exchange on which registered)
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Securities registered pursuant to Section 12(g) of the Act:

None

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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:

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange

Act). Yes No

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant as of June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, was \$391,333,962 based upon the closing price reported for such date on the NASDAQ Global Select Market.

As of March 5, 2015, the registrant had 80,419,146 shares of common stock outstanding.

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement for the 2015 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2014. Except with respect to information specifically incorporated by reference in this Form 10-K, the Definitive Proxy Statement is not deemed to be filed as part of this Form 10-K.

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

Special Note Regarding Forward Looking Statements and Industry and Market Data

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases you can identify forward-looking statements because they contain words such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “might,” “likely,” “plans,” “potential,” “predicts,” or similar expressions and the negatives of those terms. Forward-looking statements contained in this Annual Report on Form 10-K include, but are not limited to, statements about:

- our future financial performance and our expectations regarding our revenue, cost of revenue, gross profit or gross margin, operating expenses, ability to generate cash flow, and ability to achieve, and maintain, future profitability;
- our relationship with key industry participants, including car dealers and automobile manufacturers;
- anticipated trends, growth rates and challenges in our business and in the markets in which we operate;
- our ability to anticipate market needs and develop new and enhanced products and services to meet those needs, and our ability to successfully monetize them;
- maintaining and expanding our customer base;
- the impact of competition in our industry and innovation by our competitors;
- our anticipated growth and growth strategies and our ability to effectively manage that growth;
- our ability to sell our products and expand internationally;
- our failure to anticipate or adapt to future changes in our industry;
- the impact of seasonality on our business;
- our ability to hire and retain necessary qualified employees to expand our operations;
- the impact of any failure of our solutions or solution innovations;
- our reliance on our third-party service providers;
- the evolution of technology affecting our products, services and markets;
- our ability to adequately protect our intellectual property;
- the anticipated effect on our business of litigation to which we are a party;
- our ability to stay abreast of new or modified laws and regulations that currently apply or become applicable to our business;
- the increased expenses and administrative workload associated with being a public company;
- failure to maintain an effective system of internal controls necessary to accurately report our financial results and prevent fraud;
- our liquidity and working capital requirements;
- the estimates and estimate methodologies used in preparing our consolidated financial statements and determining option exercise prices;
- the future trading prices of our common stock and the impact of securities analysts’ reports on these prices;
- the preceding and other factors discussed in Part I, Item 1A, “Risk Factors,” and in other reports we may file with the Securities and Exchange Commission from time to time; and
- the factors set forth in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or

achievements expressed or implied by the forward-looking statements. We discuss these risks in greater detail in the section entitled “Risk Factors” and elsewhere in this Annual Report on Form 10-K. Given these uncertainties, you should

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not place undue reliance on these forward-looking statements. Forward-looking statements speak only as of the date the statements are made. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

This Annual Report on Form 10-K also contains estimates and other statistical data, including those relating to our industry and the market in which we operate, which we have obtained or derived from industry publications and reports, including reports from Autodata Corp., USA, Borrell Associates, J.D. Power and Associates, NADA, R.L. Polk & Co., Automotive News and other publicly available information. These industry publications and reports do not guarantee the accuracy and completeness of their information although the authors generally indicate that they have obtained the information from sources believed to be reliable. The information involves a number of estimates and assumptions. You are cautioned not to give undue weight to these estimates and assumptions. Based on our industry experience, we believe that the publications and reports are reliable and that the conclusions contained in the publications and reports are reasonable. However, the industry in which we operate is subject to a high degree of uncertainty and risk due to a variety of factors, including those described in “Risk Factors.” These and other factors could cause actual results to differ materially from those expressed in the industry publications and reports.

PART I

Item 1. Business

Overview

Our mission is to transform the car-buying experience for consumers and the way that the automotive industry attracts customers and sells 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 on the TrueCar website and our branded mobile experience. In addition, we customize and operate our platform on a co-branded basis for our many affinity group marketing partners, including financial institutions like USAA and American Express, membership-based organizations like Consumer Reports, AARP and AAA, and employee buying programs for large enterprises such as IBM and Walmart. We enable users to obtain market-based pricing data on new and used cars, and to connect with our network of TrueCar Certified Dealers. We also allow automobile manufacturers, known in the industry as OEMs, to connect with TrueCar users in the purchase process and efficiently deliver incentives specifically targeted to individual consumers.

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

We have been focused primarily on new car transactions. In the future, we intend to introduce additional products and services designed to improve the overall car-buying and car-ownership experience. Through TrueCar Labs, an incubator focused on developing innovative solutions for the automotive ecosystem, the Company deploys new products and solutions in their earliest phase in order to seek feedback from consumers, dealers and OEMs, enabling

them to shape a better product experience. For example, we are developing a vehicle trade-in solution called TrueTrade to provide users with an estimated daily market value for their existing cars and a guaranteed trade-in price and to provide TrueCar Certified Dealers with access to quality used vehicles to purchase. We also plan to develop products to provide users with upfront financing and leasing information to provide a more convenient car buying experience. We

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are also in the process of launching a number of new services for our dealers designed to enable them to make better informed inventory management and pricing decisions and to close transactions more efficiently. In addition, we have developed a new product, Live Prospect, which allows OEMs to generate private, targeted, one-on-one offers to consumers who are deep in the shopping process on the TrueCar platform.

Our network of over 10,000 TrueCar Certified Dealers consists primarily of new car franchises, representing all major makes of cars, as well as independent dealers selling used vehicles. TrueCar Certified Dealers operate in all 50 states and the District of Columbia. We estimate that users of our platform purchasing cars from TrueCar Certified Dealers accounted for approximately 3.5% of all new car sales in the United States in 2014, excluding fleet car sales, an increase from 2.4% in 2013 and 1.5% in 2012. Since our founding in 2005, TrueCar users have purchased over 1.7 million new and used vehicles from TrueCar Certified Dealers, including over 600,000 vehicles in 2014.

Our subsidiary, ALG, Inc., provides data and consulting services regarding determination of the residual value of an automobile at given future points in time. These residual values are used to underwrite automotive loans and leases to determine payments by consumers. In addition, financial institutions use this information to measure exposure and risk across loan, lease, and fleet portfolios. We also obtain automobile purchase data from a variety of sources and use this data to provide consumers and dealers with highly accurate, geographically specific, real-time pricing information.

During 2014, we generated revenues of \$206.6 million and recorded a net loss of \$48.4 million. Of the \$206.6 million in revenues, 92% consisted of transaction revenues with the remaining 8% derived primarily from the sale of data and consulting services to the automotive and financial services industries. Revenues from the sale of data and consulting services are derived primarily from the operations of our ALG subsidiary. Transaction revenues primarily consist of fees paid to us by our network of TrueCar Certified Dealers under our pay-for-performance business model where we generally earn a fee only when a TrueCar user purchases a car from a TrueCar Certified Dealer. We also receive revenue from OEMs in connection with our targeted incentive programs.

Industry Overview and Market Opportunity

Large, fragmented and competitive automobile retail market

According to Borrell Associates, total new vehicle related advertising spend in print, broadcast, radio, Internet and other channels was expected to total \$28.5 billion in 2014. This forecast consisted of \$12.4 billion from automotive manufacturers, \$8.5 billion from dealers, \$6.2 billion from cooperative advertising between automotive manufacturers and dealers and \$1.3 billion from dealer associations. According to Autodata Corp., USA, or AutoData, automotive manufacturers also spend \$46 billion in incentives to induce consumers to purchase their vehicles.

The Internet is a highly influential medium in the consumer's research and shopping process for automobiles. According to a study by R.L. Polk & Co., or Polk, new and used car buyers cited the Internet as the initial source of information in their buying process greater than 15 times more frequently than any other media source. Manufacturers and dealers continue to allocate marketing budgets towards online sources and away from traditional media sources. According to NADA, the average percentage of a dealer's marketing budget devoted to online advertising was 33% in 2013, a five-fold increase from the reported percentage in 2003.

Online research in automotive has evolved from