# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, DC 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended June 30, 2018**

**OR**

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

**For the transition period from __________________ to __________________**

**Commission File Number: 001-38233**

# CARGURUS, INC.

**(Exact Name of Registrant as Specified in its Charter)**

| | |
|---|---|
| **Delaware**<br>**(State or other jurisdiction of incorporation or organization)** | **04-3843478**<br>**(I.R.S. Employer Identification No.)** |
| **2 Canal Park, 4th Floor**<br>**Cambridge, Massachusetts**<br>**(Address of principal executive offices)** | **02141**<br>**(Zip Code)** |

**Registrant's telephone number, including area code: (617) 354-0068**

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

Indicate by check mark whether the registrant has submitted electronically 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 ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ (Do not check if a small reporting company) | Small reporting company | ☐ |
| | | Emerging growth company | ☒ |

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of July 31, 2018, the registrant had 88,762,521 shares of Class A common stock, $0.001 par value per share, and 20,702,084 shares of Class B common stock, par value $0.001 per share, outstanding.

**Table of Contents**

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This report 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,” “projects,” “seeks,” “should,” “target,” “will,” “would,” or similar expressions and the negatives of those terms. Forward-looking statements contained in this report include, but are not limited to, statements about:

- our future financial performance, including 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 anticipated growth and growth strategies and our ability to effectively manage that growth;
- our ability to maintain and build our brand;
- our ability to expand internationally;
- the impact of competition in our industry and innovation by our competitors;
- the impact of accounting pronouncements;
- the impact of litigation;
- our ability to hire and retain necessary qualified employees to expand our operations;
- our ability to adequately protect our intellectual property;
- our ability to stay abreast of new or modified laws and regulations that currently apply or become applicable to our business;
- our ability to overcome challenges facing the automotive industry ecosystem, including global supply chain challenges, changes to trade policies and other macroeconomic issues;
- 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 expectations regarding cash generation and the sufficiency of our cash to fund our operations; and
- the future trading prices of our Class A common stock.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this report primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, operating results, and growth prospects. 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 report. 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 that could have an impact on the forward-looking statements contained in this report. Further, our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make. 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 forward-looking statements made in this report 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 report to reflect events or circumstances after the date of this report or to reflect new information or the occurrence of unanticipated events, except as required by law.

## PART I—FINANCIAL INFORMATION

**Item 1. Financial Statements.**

**CarGurus, Inc.**

**Unaudited Condensed Consolidated Balance Sheets**

**(in thousands, except share and per share data)**

| | At June 30, 2018 | At December 31, 2017 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 31,762 | $ 87,709 |
| Investments | 110,000 | 50,000 |
| Accounts receivable, net of allowance for doubtful accounts of $551 and $494, respectively | 11,432 | 12,577 |
| Prepaid expenses, prepaid income taxes and other current assets | 11,090 | 6,918 |
| Total current assets | 164,284 | 157,204 |
| Property and equipment, net | 16,221 | 16,563 |
| Restricted cash | 3,604 | 1,843 |
| Deferred tax assets | 29,049 | 825 |
| Other long–term assets | 143 | 159 |
| Total assets | $ 213,301 | $ 176,594 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities | | |
| Accounts payable | $ 30,476 | $ 23,908 |
| Accrued expenses, accrued income taxes and other current liabilities | 11,290 | 13,588 |
| Deferred revenue | 7,577 | 4,305 |
| Deferred rent | 1,206 | 1,165 |
| Total current liabilities | 50,549 | 42,966 |
| Deferred rent, net of current portion | 5,206 | 5,648 |
| Other non–current liabilities | 1,155 | 955 |
| Total liabilities | 56,910 | 49,569 |
| Commitments and contingencies (Note 6) | | |
| Stockholders' equity: | | |
| Class A common stock, $0.001 par value per share; 500,000,000 shares authorized; 88,682,807 and 77,884,754 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively. | 89 | 78 |
| Class B common stock, $0.001 par value per share; 100,000,000 shares authorized; 20,702,084 and 28,226,104 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively. | 21 | 28 |
| Additional paid-in capital | 179,716 | 185,190 |
| Accumulated deficit | (23,583) | (58,499) |
| Accumulated other comprehensive income | 148 | 228 |
| Total stockholders' equity | 156,391 | 127,025 |
| Total liabilities and stockholders' equity | $ 213,301 | $ 176,594 |

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

**CarGurus, Inc.**

**Unaudited Condensed Consolidated Income Statements**

**(in thousands, except share and per share data)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | $ 110,325 | $ 76,240 | $ 209,026 | $ 143,275 |
| Cost of revenue(1) | 5,959 | 4,322 | 11,528 | 7,647 |
| Gross profit | 104,366 | 71,918 | 197,498 | 135,628 |
| Operating expenses: | | | | |
| Sales and marketing | 80,933 | 55,533 | 152,441 | 104,604 |
| Product, technology, and development | 11,844 | 4,709 | 20,942 | 8,357 |
| General and administrative | 9,541 | 5,033 | 17,412 | 9,092 |
| Depreciation and amortization | 604 | 648 | 1,337 | 1,196 |
| Total operating expenses | 102,922 | 65,923 | 192,132 | 123,249 |
| Income from operations | 1,444 | 5,995 | 5,366 | 12,379 |
| Other income, net | 703 | 53 | 985 | 217 |
| Income before income taxes | 2,147 | 6,048 | 6,351 | 12,596 |
| (Benefit from) provision for income taxes | (29,118) | 1,702 | (28,565) | 4,043 |
| Net income | $ 31,265 | $ 4,346 | $ 34,916 | $ 8,553 |
| Reconciliation of net income to net income attributable to common stockholders: | | | | |
| Net income | $ 31,265 | $ 4,346 | $ 34,916 | $ 8,553 |
| Net income attributable to participating securities | — | (2,563) | — | (5,045) |
| Net income attributable to common stockholders — basic | $ 31,265 | $ 1,783 | $ 34,916 | $ 3,508 |
| Net income | $ 31,265 | $ 4,346 | $ 34,916 | $ 8,553 |
| Net income attributable to participating securities | — | (2,468) | — | (4,853) |
| Net income attributable to common stockholders — diluted | $ 31,265 | $ 1,878 | $ 34,916 | $ 3,700 |
| Net income per share attributable to common stockholders: (Note 8) | | | | |
| Basic | $ 0.29 | $ 0.04 | $ 0.32 | $ 0.08 |
| Diluted | $ 0.28 | $ 0.04 | $ 0.31 | $ 0.08 |
| Weighted-average number of shares of common stock used in computing net income per share attributable to common stockholders: | | | | |
| Basic | 108,500,802 | 42,162,718 | 107,726,105 | 42,122,339 |
| Diluted | 113,081,209 | 46,097,163 | 113,215,564 | 46,182,359 |

(1) Includes depreciation and amortization expense for the three months ended June 30, 2018 and 2017 and for the six months ended June 30, 2018 and 2017 of $616, $269, $1,120 and $391, respectively.

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

**CarGurus, Inc.**

**Unaudited Condensed Consolidated Statements of Comprehensive Income**

**(in thousands)**

| | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
|---|---|---|---|---|
| Net income | $ 31,265 | $ 4,346 | $ 34,916 | $ 8,553 |
| Other comprehensive income: | | | | |
| Foreign currency translation adjustment | (152) | 137 | (80) | 157 |
| Comprehensive income | $ 31,113 | $ 4,483 | $ 34,836 | $ 8,710 |

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

**CarGurus, Inc.**

**Unaudited Condensed Consolidated Statements of Stockholders' Equity**

**(in thousands, except share data)**

| | Class A Common Stock | | Class B Common Stock | | Additional Paid–in Capital | Accumulated Other Comprehensive Income | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | |
| Balance at December 31, 2017 | 77,884,754 | $ 78 | 28,226,104 | $ 28 | $185,190 | $ 228 | $ (58,499) | $ 127,025 |
| Net income | — | — | — | — | — | — | 34,916 | 34,916 |
| Stock–based compensation expense | — | — | — | — | 9,633 | — | — | 9,633 |
| Issuance of common stock upon exercise of stock options | 2,473,318 | 3 | 10,690 | — | 2,382 | — | — | 2,385 |
| Issuance of common stock upon vesting of restricted stock units | 1,261,495 | 1 | — | — | (1) | — | — | — |
| Payment of withholding taxes on net share settlements of equity awards | (471,470) | — | — | — | (17,488) | — | — | (17,488) |
| Conversion of common stock | 7,534,710 | 7 | (7,534,710) | (7) | — | — | — | — |
| Foreign currency translation adjustment | — | — | — | — | — | (80) | — | (80) |
| Balance at June 30, 2018 | 88,682,807 | $ 89 | 20,702,084 | $ 21 | $179,716 | $ 148 | $ (23,583) | $ 156,391 |

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

**CarGurus, Inc.**

**Unaudited Condensed Consolidated Statements of Cash Flows**

**(in thousands)**

| | Six Months Ended June 30, | |
|---|---|---|
| | **2018** | **2017** |
| **Operating Activities** | | |
| Net income | $ 34,916 | $ 8,553 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,457 | 1,587 |
| Unrealized currency (gain) loss on foreign denominated transactions | (19) | 128 |
| Deferred taxes | (28,224) | 410 |
| Provision for doubtful accounts | 722 | 380 |
| Stock-based compensation expense | 9,423 | 150 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 418 | (2,720) |
| Prepaid expenses, prepaid income taxes, and other assets | (4,312) | (890) |
| Accounts payable | 7,338 | 1,200 |
| Accrued expenses, accrued income taxes, and other current liabilities | (1,991) | (784) |
| Deferred revenue | 3,315 | 1,251 |
| Deferred rent | (434) | 668 |
| Other non-current liabilities | 239 | 157 |
| Net cash provided by operating activities | 23,848 | 10,090 |
| **Investing Activities** | | |
| Purchases of property and equipment | (981) | (1,976) |
| Capitalization of website development costs | (725) | (947) |
| Investments in certificates of deposit | (130,000) | (30,000) |
| Maturities of certificates of deposit | 70,000 | 26,774 |
| Net cash used in investing activities | (61,706) | (6,149) |
| **Financing Activities** | | |
| Proceeds from exercise of stock options | 2,385 | 168 |
| Payment of initial public offering costs | (1,142) | (305) |
| Payment of withholding taxes on net share settlements of equity awards | (17,488) | — |
| Net cash used in financing activities | (16,245) | (137) |
| Impact of foreign currency on cash, cash equivalents, and restricted cash | (83) | 29 |
| Net (decrease) increase in cash, cash equivalents, and restricted cash | (54,186) | 3,833 |
| Cash, cash equivalents, and restricted cash at beginning of period | 89,552 | 31,520 |
| Cash, cash equivalents, and restricted cash at end of period | $ 35,366 | $ 35,353 |
| **Supplemental disclosure of cash flow information:** | | |
| Cash paid for income taxes | $ 2,280 | $ 647 |
| Cash paid for interest | $ 10 | $ 12 |
| **Supplemental disclosure of non-cash investing activities:** | | |
| Unpaid purchases of property and equipment | $ 712 | $ 2,271 |
| Capitalized stockholders' compensation in website development costs | $ 210 | $ — |
| Unpaid deferred initial public offering costs | $ — | $ 1,549 |

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

**CarGurus, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**(dollars in thousands, except share and per share data, unless otherwise noted)**

## 1. Organization and Business Description

CarGurus, Inc. (the "Company"), is a global, online automotive marketplace connecting buyers and sellers of new and used cars. Using proprietary technology, search algorithms, and innovative data analytics, the Company provides information and analysis that create a differentiated automotive search experience for consumers. The Company's marketplace empowers users worldwide with unbiased third-party validation on pricing and dealer reputation, as well as other useful information that aids them in finding "Great Deals from Top-Rated Dealers."

The Company is headquartered in Cambridge, Massachusetts and was incorporated in the State of Delaware on June 26, 2015. The Company operates principally in the United States and has also launched marketplaces in Canada, the United Kingdom, Germany, Italy, and Spain. The Company has wholly owned subsidiaries in the United States, Canada, Ireland, and the United Kingdom.

The Company is subject to a number of risks and uncertainties common to companies in its and similar industries and stages of development including, but not limited to, rapid technological changes, competition from substitute products and services from larger companies, management of international activities, protection of proprietary rights, patent litigation, and dependence on key individuals.

## 2. Summary of Significant Accounting Policies

*Basis of Presentation*

The accompanying interim condensed consolidated financial statements (the "Unaudited Condensed Consolidated Financial Statements") are unaudited. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission ("SEC") on March 1, 2018 (the "2017 Annual Report").

The Unaudited Condensed Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the SEC. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States ("GAAP") have been condensed or omitted pursuant to such rules and regulations. The Unaudited Condensed Consolidated Financial Statements reflect all adjustments, consisting of only normal recurring adjustments, necessary for the fair presentation of the Company's financial position as of June 30, 2018 and December 31, 2017, results of operations for the three and six months ended June 30, 2018 and 2017, and cash flows for the six months ended June 30, 2018 and 2017. These interim period results are not necessarily indicative of the results to be expected for any other interim period or the full year.

The accompanying Unaudited Condensed Consolidated Financial Statements reflect the application of certain significant accounting policies as described below and elsewhere in these notes to the Unaudited Condensed Consolidated Financial Statements. As of June 30, 2018, there have been no material changes in the Company's significant accounting policies from those that were disclosed in the 2017 Annual Report.

*Principles of Consolidation*

The accompanying Unaudited Condensed Consolidated Financial Statements include the accounts of CarGurus, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The Company prepares its Unaudited Condensed Consolidated Financial Statements and related disclosures in conformity with GAAP.

*Subsequent Event Considerations*

The Company considers events or transactions that occur after the balance sheet date but prior to the issuance of the financial statements to provide additional evidence for certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated as required. The Company has evaluated all subsequent events and determined that there are no material recognized or unrecognized subsequent events requiring disclosure.

*Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period.

Significant estimates relied upon in preparing these Unaudited Condensed Consolidated Financial Statements include revenue recognition and revenue reserves, contingent liabilities, allowances for doubtful accounts, expected future cash flows used to evaluate the recoverability of long-lived assets, the expensing and capitalization of product, technology, and development costs for website development and internal-use software, the determination of the fair value of stock awards issued prior to the Company's initial public offering ("IPO"), stock-based compensation expense, and the recoverability of the Company's net deferred tax assets and related valuation allowance.

Although the Company regularly assesses these estimates, actual results could differ materially from these estimates. Changes in estimates are recorded in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances. Actual results may differ from management's estimates if these results differ from historical experience, or other assumptions do not turn out to be substantially accurate, even if such assumptions are reasonable when made.

*Emerging Growth Company Status*

The Company is an "emerging growth company," as defined in the Jumpstart Our Business Startups Act, or JOBS Act, and may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies. The Company may take advantage of these exemptions until the Company ceases to be an emerging growth company. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period afforded by the JOBS Act for the implementation of new or revised accounting standards. The Company has elected to use the extended transition period for complying with new or revised accounting standards and as a result of this election, its financial statements may not be comparable to companies that comply with public company effective dates. The Company may take advantage of these exemptions up until the last day of the fiscal year following the fifth anniversary of the IPO or such earlier time that it is no longer an emerging growth company. The Company would cease to be an emerging growth company if it has more than $1.07 billion in annual revenue, at the end of its fiscal year when it had more than $700.0 million in market value of its stock held by non-affiliates as of the last business day of the its most recently completed second fiscal quarter (and it has been a public company for at least 12 months, and has filed one Annual Report on Form 10-K), or it issues more than $1.0 billion of non-convertible debt securities over a three-year period.

Because the market value of the Company's Class A common stock held by non-affiliates exceeded $700.0 million as of June 29, 2018, the Company will have been public for more than one year and it has filed its 2017 Annual Report, the Company will cease to be an emerging growth company as of December 31, 2018. As a result, beginning with the Company's Annual Report on Form 10-K for the year ending December 31, 2018, the Company will be subject to certain requirements that apply to other public companies but did not previously apply to the Company due to its status as an emerging growth company, including the provisions of Section 404 of the Sarbanes-Oxley Act, which require that the Company's independent registered public accounting firm provides an attestation report on the effectiveness of the Company's internal control over financial reporting.

*Concentration of Credit Risk*

The Company has no significant off-balance sheet risk, such as foreign exchange contracts, option contracts, or other foreign hedging arrangements. Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash, cash equivalents, investments, and trade accounts receivable. The Company maintains its cash, cash equivalents, and investments principally with accredited financial institutions of high credit standing. Although the Company deposits its cash and investments with multiple financial institutions, its deposits, at times, may exceed federally insured limits.

Credit risk with respect to accounts receivable is dispersed due to the large number of customers. The Company routinely assesses the creditworthiness of its customers. The Company generally has not experienced any material losses related to receivables from individual customers, or groups of customers. The Company does not require collateral. Due to these factors, no additional credit risk beyond amounts provided for collection losses is believed by management to be probable in the Company's accounts receivable.

For the six months ended June 30, 2018 and the year ended December 31, 2017, no individual customer accounted for more than 10% of total revenue.

As of June 30, 2018, three customers accounted for 20%, 14% and 14% of net accounts receivable, respectively. As of December 31, 2017, two customers accounted for 29% and 17% of net accounts receivable, respectively. No other individual customer accounted for more than 10% of net accounts receivable at June 30, 2018 or December 31, 2017.

*Recent Accounting Pronouncements*

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (the "FASB") or other standard setting bodies and adopted by the Company on or prior to the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on its financial position or results of operations upon adoption.

*Revenue Recognition*

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), which modifies how all entities recognize revenue, and consolidates into one Accounting Standards Codification ("ASC") Topic (ASC Topic 606, *Revenue from Contracts with Customers*) the current guidance found in ASC Topic 605, and various other revenue accounting standards for specialized transactions and industries. ASU 2014-09 outlines a comprehensive five-step revenue recognition model based on the principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 may be applied using either a full retrospective approach, under which all years included in the financial statements will be presented under the revised guidance, or a modified retrospective approach, under which financial statements will be prepared under the revised guidance for the year of adoption, but not for prior years. Under the latter method, entities will recognize a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for contracts that still require performance by the entity at the date of adoption. The Company currently expects to adopt the standard using the modified retrospective method.

In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date* ("ASU 2015-14"), which defers the effective date of ASU 2014-09 by one year. ASU 2014-09 is now effective for certain public entities for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. For all other entities, including emerging growth companies, the guidance in ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Since the Company will cease to be an emerging growth company as of December 31, 2018, the Company is required to adopt the standard during the fourth quarter of 2018.

The Company has developed an implementation plan to adopt this new guidance. As part of this plan, the Company is continuing to assess the impact of the new guidance on its results of operations. Based on the Company's procedures performed to date, nothing has come to its attention that would indicate that the adoption of ASU 2014-09 will have a material impact on its revenue recognition; however, further analysis is required and the Company will continue to evaluate the impact that this guidance will have on its financial statements and related disclosures throughout 2018. While the Company is still evaluating the impact that this guidance will have on its financial statements and related disclosures, the Company's preliminary assessment is that there will be an impact relating to the accounting for costs to acquire a contract; however, the Company has yet to determine if the impact will be material. Under the standard, the Company will be required to capitalize certain costs, primarily commission expense to sales representatives, on its consolidated balance sheet and amortize such costs over the period of performance for the underlying customer contracts.

*Other Recent Accounting Pronouncements*

In June 2018, the FASB issued ASU No. 2018-07*, Compensation—Stock Compensation (Topic 718)* ("ASU 2018-07"). ASU 2018-07 expands the scope of Topic 718, *Compensation—Stock Compensation*, to include share-based payment transactions for acquiring goods and services from non-employees. The amendments in this update state that an entity should apply the requirements of Topic 718 to non-employee awards except for specific guidance on inputs to an option pricing model and the attribution of cost (that is, the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. The Company has assessed the impact of this guidance on its consolidated financial statements and does not deem it to be material. The Company plans to adopt the guidance on January 1, 2019.

In February 2016, the FASB issued ASU No. 2016-02*, Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 requires a lessee to recognize most leases on the balance sheet but recognize expenses on the income statement in a manner similar to current practice. The update states that a lessee will recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying assets for the lease term. Leases will continue to be classified as either financing or operating, with classification affecting the recognition, measurement, and presentation of expenses and cash flows arising from a lease. For certain public entities, the new standard is effective for interim and annual periods beginning on or after January 1, 2019, with early adoption permitted. For all other entities, including emerging growth companies, the new standard is effective for annual periods beginning after December 15, 2019, with early adoption permitted. While the Company is still evaluating the impact this guidance may have on its consolidated financial statements, it anticipates that such guidance will materially impact its Balance Sheet.

**3. Fair Value of Financial Instruments Including Cash, Cash Equivalents and Investments**

ASC 820, *Fair Value Measurements and Disclosures*, establishes a three-level valuation hierarchy for instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company's own assumptions (unobservable inputs). Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the inputs that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances.

ASC 820 identifies fair value as the exchange price, or exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants based on the highest and best use of the asset or liability. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The Company uses valuation techniques to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized as follows:

Level 1 — Quoted unadjusted prices for identical instruments in active markets.

Level 2 — Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all observable inputs and significant value drivers are observable in active markets.

Level 3 — Model-derived valuations in which one or more significant inputs or significant value drivers are unobservable, including assumptions developed by the Company.

The valuation techniques that may be used to measure fair value are as follows:

*Market Approach* — Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

*Income Approach* — Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about those future amounts, including present value techniques, option pricing models, and excess earnings method.

*Cost Approach* — Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

The following tables present, for each of the fair value levels, the Company's assets that are measured at fair value on a recurring basis at June 30, 2018 and at December 31, 2017:

| | At June 30, 2018 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1 Inputs) | Significant Other Observable Inputs (Level 2 Inputs) | Significant Unobservable Inputs (Level 3 Inputs) | Total |
| Assets: | | | | |
| Money market funds | $ 1,085 | $ — | $ — | $ 1,085 |
| Investments: | | | | |
| Certificates of deposit | — | 110,000 | — | 110,000 |
| Total | $ 1,085 | $ 110,000 | $ — | $ 111,085 |

| | At December 31, 2017 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1 Inputs) | Significant Other Observable Inputs (Level 2 Inputs) | Significant Unobservable Inputs (Level 3 Inputs) | Total |
| Assets: | | | | |
| Money market funds | $ 60,709 | $ — | $ — | $ 60,709 |
| Investments: | | | | |
| Certificates of deposit | — | 50,000 | — | 50,000 |
| Total | $ 60,709 | $ 50,000 | $ — | $ 110,709 |

Certificates of deposit at June 30, 2018 and December 31, 2017 had maturity dates of one year or less.

The Company measures eligible assets and liabilities at fair value with changes in value recognized in earnings. Fair value treatment may be elected either upon initial recognition of an eligible asset or liability or, for an existing asset or liability, if an event triggers a new basis of accounting. The Company did not elect to remeasure any of its existing financial assets or liabilities, and did not elect the fair value option for any financial assets and liabilities transacted in the six months ended June 30, 2018 or the year ended December 31, 2017.

The Company considers all highly liquid investments with an original maturity of 90 days or less at the date of purchase to be cash equivalents. Investments not classified as cash equivalents with maturities one year or less from the balance sheet date are classified as short-term investments, while investments with maturities in excess of one year from the balance sheet date are classified as long-term investments. Management determines the appropriate classification of investments at the time of purchase, and re-evaluates such determination at each balance sheet date.

Cash and cash equivalents primarily consist of cash on deposit with banks, and amounts held in interest-bearing money market accounts. Cash equivalents are carried at cost, which approximates their fair market value.

The following is a summary of cash, cash equivalents, and investments as of June 30, 2018 and December 31, 2017.

| | At June 30, 2018 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Cash and cash equivalents due in 90 days or less | $ 31,762 | $ — | $ — | $ 31,762 |
| Investments: | | | | |
| Certificates of deposit due in one year or less | 110,000 | | | 110,000 |
| Total cash, cash equivalents, and investments | $ 141,762 | $ — | $ — | $ 141,762 |

| | At December 31, 2017 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Cash and cash equivalents due in 90 days or less | $ 87,709 | $ — | $ — | $ 87,709 |
| Investments: | | | | |
| Certificates of deposit due in one year or less | 50,000 | | | 50,000 |
| Total cash, cash equivalents, and investments | $ 137,709 | $ — | $ — | $ 137,709 |

**4. Property and Equipment, Net**

Property and equipment consists of the following:

| | At June 30, 2018 | At December 31, 2017 |
|---|---|---|
| Computer equipment | $ 3,859 | $ 3,532 |
| Capitalized software | 220 | 174 |
| Website development costs | 5,813 | 4,895 |
| Furniture and fixtures | 4,542 | 4,421 |
| Leasehold improvements | 10,805 | 10,797 |
| Construction in progress | 68 | 46 |
| | 25,307 | 23,865 |
| Less accumulated depreciation | (9,086) | (7,302) |
| Property and equipment, net | $ 16,221 | $ 16,563 |

Depreciation and amortization expense on property and equipment for the three months ended June 30, 2018 and 2017 and for the six months ended June 30, 2018 and 2017 was $1,220, $917, $2,457 and $1,587, respectively.

**5. Accrued expenses, accrued income taxes and other current liabilities**

Accrued expenses, accrued income taxes and other current liabilities consist of the following:

| | At June 30, 2018 | At December 31, 2017 |
|---|---|---|
| Accrued bonuses | 4,740 | $ 7,807 |
| Accrued commissions | 2,603 | 1,581 |
| Other accrued expenses, accrued income taxes and other current liabilities | 3,947 | 4,200 |
| | $ 11,290 | $ 13,588 |

**6. Commitments and Contingencies**

*Operating Leases*

The Company's lease obligations consist of various leases for office space in: Cambridge, Massachusetts; Detroit, Michigan; and Dublin, Ireland, with various lease terms through 2033. The terms of the Company's Massachusetts lease agreements provide for rental payments that increase on an annual basis. The Company recognizes rent expense on a straight-line basis over the lease period. The Company does not have any debt or material capital lease obligations as of June 30, 2018 and all of the Company's property, equipment, and software have been purchased with cash with the exception of $712 of unpaid property and equipment costs as of June 30, 2018. The Company has no material long-term purchase obligations outstanding with any vendors or third parties.

As of June 30, 2018, there were no material changes in the Company's contractual obligations and commitments from those disclosed in the 2017 Annual Report, other than as discussed below.

On June 19, 2018, the Company entered into an additional operating lease in Cambridge, Massachusetts, comprised of 48,393 square feet of office space and with a non-cancellable lease term through 2033. Under the terms of the lease, the Company will pay an annual fixed rent of $68.00 per rentable square foot, resulting in an aggregate annual fixed rent of $3,291, subject to an annual increase through the term of the lease.

At June 30, 2018 and December 31, 2017, restricted cash was $3,604 and $1,843, respectively, and primarily related to cash held at a financial institution in an interest-bearing cash account as collateral for three letters of credit related to the contractual provisions for the Company's building lease security deposits. As of June 30, 2018 and December 31, 2017, the restricted cash is classified as a long-term asset.

*Legal Matters*

The Company, from time to time, is party to litigation arising in the ordinary course of business. Management does not believe that the outcome of these claims will have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company based on the status of proceedings at this time.

*Guarantees and Indemnification Obligations*

In the ordinary course of business, the Company enters into agreements with its customers that are consistent with industry practice with respect to licensing, infringement, indemnification, and other standard provisions. The Company does not, in the ordinary course, agree to indemnification obligations for the Company under its contracts with customers. Based on historical experience and information known at June 30, 2018 and December 31, 2017, the Company has not incurred any costs for guarantees or indemnities.

**7. Stock-based Compensation**

For the three months ended June 30, 2018 and 2017, total stock-based compensation expense was $5,605 and $74, respectively. For the six months ended June 30, 2018 and 2017, total stock-based compensation expense was $9,423 and $150, respectively. The following two tables show stock compensation expense by award type and where the stock compensation expense is recorded in the Company's Unaudited Condensed Consolidated Income Statements:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Options | $ 64 | $ 74 | $ 129 | $ 150 |
| RSUs | 5,541 | — | 9,294 | — |
| Total stock-based compensation expense | $ 5,605 | $ 74 | $ 9,423 | $ 150 |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Cost of revenue | $ 92 | $ 5 | $ 181 | $ 10 |
| Sales and marketing expense | 1,536 | 35 | 2,546 | 73 |
| Product, technology, and development expense | 2,658 | 23 | 4,319 | 48 |
| General and administrative expense | 1,319 | 11 | 2,377 | 19 |
| Total | $ 5,605 | $ 74 | $ 9,423 | $ 150 |

Excluded from stock-based compensation expense is $210 of capitalized website development costs in the six months ended June 30, 2018. Stock-based compensation expenses related to capitalized website development costs were immaterial for the three months ended June 30, 2018 and 2017 and for the six months ended June 30, 2017.

During the three months ended June 30, 2018, the Company withheld 471,470 shares of Class A common stock to satisfy employee tax withholding requirements due to net share settlement. The shares withheld remain in the authorized, but unissued pool under the Company's Omnibus Equity Compensation Plan and can be reissued by the Company. Total payments of $17,488 for the employees' tax obligations to the taxing authorities due to net share settlements are reflected as a financing activity within the Unaudited Condensed Consolidated Statements of Cash Flows.

**8. Earnings Per Share**

Net income per share for the three and six months ended June 30, 2018 is computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. The Company computes the weighted-average number of common shares outstanding during the reporting period using the total number of shares of Class A common stock and Class B common stock outstanding as of the last day of the previous year end reporting period plus the weighted-average of any additional shares issued and outstanding during the reporting period.

Net income per share for the three and six months ended June 30, 2017 is computed using the two-class method, which includes the weighted-average number of shares of common stock outstanding during the period and other securities that participate in dividends (a participating security). As of June 30, 2017, the Company had convertible preferred stock outstanding. The Company considered the convertible preferred stock to be participating securities because they included rights to participate in dividends with the common stock. On October 16, 2017, in connection with the closing of the IPO, all of the outstanding shares of convertible preferred stock automatically converted into 20,188,226 shares of Class A common stock and 40,376,452 shares of Class B common stock. As a result, there were no shares of preferred stock outstanding at the closing of the IPO and the Company has not issued any new shares of preferred stock since such closing.

Under the two-class method, basic net income per share attributable to common stockholders is computed by dividing the net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Diluted net income per share attributable to common stockholders is computed using the more dilutive of (1) the two-class method or (2) the if-converted method. The Company allocated net income first to preferred stockholders based on dividend rights under the Company's certificate of incorporation that was in effect prior to the closing of the IPO and then to preferred and common stockholders based on ownership interests.

The Company has two classes of common stock authorized: Class A common stock and Class B common stock. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting and conversion. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share. Each share of Class B common stock is convertible into one share of Class A common stock at the option of the holder at any time or automatically upon certain events described in the Company's amended and restated certificate of incorporation, including on either the death or voluntary termination of the Company's Chief Executive Officer. The Company allocates undistributed earnings attributable to common stock between the common stock classes on a one-to-one basis when computing net income per share. As a result, basic and diluted net income per share of Class A common stock and per share of Class B common stock are equivalent.

During the six months ended June 30, 2018, holders of Class B common stock elected to convert 7,534,710 shares of Class B common stock to Class A common stock.

Diluted net income per share gives effect to all potentially dilutive securities. Potential dilutive securities for the three and six months ended June 30, 2018 and 2017 consist of shares of common stock issuable upon the exercise of stock options and shares of common stock issuable upon the vesting of RSUs. Potential dilutive securities for the three and six months ended June 30, 2017 also included shares of common stock issuable upon the conversion of the outstanding preferred stock. The dilutive effect of these common stock equivalents is reflected in diluted earnings per share by application of the treasury stock method.

For the three and six months ended June 30, 2018, dilutive net income per share is calculated by dividing net income by the weighted-average number of shares of common stock outstanding during the period plus the dilutive impact of stock options and shares of common stock issuable upon the vesting of RSUs. For the three and six months ended June 30, 2017, the two-class method was used in the computation of diluted net income per share, which was equally as dilutive as the if-converted method.

The following table presents a reconciliation of the numerator and denominator used in the calculation of basic and diluted net income per share:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Numerator:** | | | | |
| Net income | $ 31,265 | $ 4,346 | $ 34,916 | $ 8,553 |
| Net income attributable to participating securities | — | (2,563) | — | (5,045) |
| Net income attributable to common stockholders — basic | $ 31,265 | $ 1,783 | $ 34,916 | $ 3,508 |
| Net income | $ 31,265 | $ 4,346 | $ 34,916 | $ 8,553 |
| Net income attributable to participating securities | — | (2,468) | — | (4,853) |
| Net income attributable to common stockholders — diluted | $ 31,265 | $ 1,878 | $ 34,916 | $ 3,700 |
| **Denominator:** | | | | |
| Weighted-average number of shares of common stock used in computing net income per share attributable to common stockholders — basic | 108,500,802 | 42,162,718 | 107,726,105 | 42,122,339 |
| Dilutive effect of share equivalents resulting from stock options | 3,159,031 | 3,934,445 | 3,965,593 | 4,060,020 |
| Dilutive effect of share equivalents resulting from unvested restricted stock units | 1,421,376 | — | 1,523,866 | — |
| Weighted-average number of shares of common stock used in computing net income per share — diluted | 113,081,209 | 46,097,163 | 113,215,564 | 46,182,359 |
| Net income per share attributable to common stockholders: | | | | |
| Basic | $ 0.29 | $ 0.04 | $ 0.32 | $ 0.08 |
| Diluted | $ 0.28 | $ 0.04 | $ 0.31 | $ 0.08 |

The following potentially dilutive common stock equivalents have been excluded from the calculation of diluted weighted-average shares outstanding for the three and six months ended June 30, 2018 and 2017, as their effect would have been anti-dilutive for the period presented:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Stock options outstanding | — | 1,202,070 | — | 1,224,477 |
| Restricted stock units outstanding | 160,900 | 2,765,910 | 80,450 | 2,369,802 |
| Convertible preferred stock | — | — | — | — |

## 9. Income Taxes

The Tax Cuts and Jobs Act (the "TCJA") was enacted on December 22, 2017. Among other things, the TCJA reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and creates new taxes on certain foreign sourced earnings. The Company is still examining certain aspects of the TCJA and refining its calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The Company recorded a provisional amount of $187 of tax expense during the year ended December 31, 2017. The Company recorded an additional $205 of tax expense during the six months ended June 30, 2018 pertaining to a change in the estimated impact of the re-measurement of the Company's U.S. net deferred tax assets.

During the six months ended June 30, 2018, the Company recorded an income tax benefit of $28,565, representing an effective tax rate of (449.8)%. The effective tax rate for the six months ended June 30, 2018 was lower than the statutory tax rate of 21% principally due to the excess stock deductions from the taxable compensation of stock-based awards and estimated federal and state research and development tax credits, partially offset by state and local income taxes.

During the six months ended June 30, 2017, the Company recorded income tax expense of $4,043, representing an effective tax rate of 32.1%. The effective tax rate for the six months ended June 30, 2017 was lower than the statutory tax rate of 35% principally due to federal and state research and development tax credits and excess stock deductions from the taxable compensation of stock-based awards, partially offset by state and local income taxes.

**10. Segment and Geographic Information**

The Company has two reportable segments, United States and International. Segment information is presented in the same manner as the Company's chief operating decision maker ("CODM"), reviews the Company's operating results in assessing performance and allocating resources. The CODM reviews revenue and operating income (loss) for each reportable segment as a proxy for the operating performance of the Company's United States and International operations. The Company's Chief Executive Officer is the CODM on behalf of both reportable segments.

The United States segment derives revenues from marketplace subscriptions, advertising services, and other revenues from customers within the United States. The International segment derives revenues from marketplace subscriptions, advertising services, and other revenues from customers outside of the United States. A majority of the Company's operational overhead expenses, including technology and personnel costs, and other general and administrative costs associated with running the Company's business, are incurred in the United States and are not allocated to the International segment. Assets and costs discretely incurred by reportable segments, including depreciation and amortization, are included in the calculation of reportable segment income (loss) from operations. Segment operating income (loss) does not reflect the transfer pricing adjustments related to the Company's foreign subsidiaries, which are recorded for statutory reporting purposes. Asset information is assessed and reviewed on a global basis.

Information regarding the Company's operations by segment and geographical area is presented as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| *Segment revenue:* | | | | |
| United States | $ 106,397 | $ 74,142 | $ 201,564 | $ 139,560 |
| International | 3,928 | 2,098 | 7,462 | 3,715 |
| Total revenue | $ 110,325 | $ 76,240 | $ 209,026 | $ 143,275 |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| *Segment income (loss) from operations:* | | | | |
| United States | $ 9,659 | $ 12,152 | $ 21,244 | $ 24,280 |
| International | (8,215) | (6,157) | (15,878) | (11,901) |
| Total income from operations | $ 1,444 | $ 5,995 | $ 5,366 | $ 12,379 |

As of June 30, 2018 and December 31, 2017, property and equipment held outside the United States was not material.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

*You should read the following discussion and analysis of our financial condition and results of operations together with our Unaudited Condensed Consolidated Financial Statements, and the related notes thereto, appearing elsewhere in this Quarterly Report on Form 10-Q, or Quarterly Report, and our consolidated financial statements and the related notes and other financial information included in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission, or SEC, on March 1, 2018, or our 2017 Annual Report. Some of the information contained in this discussion and analysis or elsewhere in this Quarterly Report, including information with respect to our plans and strategy for our business and our performance and future success, includes forward-looking statements that involve risks and uncertainties. See "Special Note Regarding Forward-Looking Statements." You should review the "Risk Factors" section of this Quarterly Report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. In this discussion, we use financial measures that are considered non-GAAP financial measures under SEC rules. These rules regarding non-GAAP financial measures require supplemental explanation and reconciliation, which are included elsewhere in this Quarterly Report. Investors should not consider non-GAAP financial measures in isolation from or in substitution for, financial information presented in compliance with U.S. generally accepted accounting principles, or GAAP.*

**Company Overview**

CarGurus is a global, online automotive marketplace connecting buyers and sellers of new and used cars. Using proprietary technology, search algorithms, and innovative data analytics, we provide information and analysis that create a differentiated automotive search experience for consumers. Our trusted marketplace empowers users with unbiased third-party validation on pricing and dealer reputation as well as other information that aids them in finding "Great Deals from Top-Rated Dealers." In addition to the United States, we operate online marketplaces in Canada, the United Kingdom, Germany, Italy, and Spain.

We generate marketplace subscription revenue from dealers through Listing and Dealer Display subscriptions, and advertising revenue from automobile manufacturers and other auto-related brand advertisers. Our revenue for the three months ended June 30, 2018 was $110.3 million, a 45% increase from $76.2 million of revenue in the three months ended June 30, 2017. Our revenue for the six months ended June 30, 2018 was $209.0 million, a 46% increase from $143.3 million of revenue in the six months ended June 30, 2017.

For the three months ended June 30, 2018, we generated net income of $31.3 million and our Adjusted EBITDA was $8.3 million, compared to net income of $4.3 million and Adjusted EBITDA of $7.0 million for the three months ended June 30, 2017. For the six months ended June 30, 2018, we generated net income of $34.9 million and our Adjusted EBITDA was $17.2 million, compared to net income of $8.6 million and Adjusted EBITDA of $14.1 million for the six months ended June 30, 2017. See "Adjusted EBITDA" below for more information regarding our use of Adjusted EBITDA, a non-GAAP financial measure, and a reconciliation of Adjusted EBITDA to our net income.

We have two reportable segments, United States and International, as further discussed in Note 10 of our Unaudited Condensed Consolidated Financial Statements included elsewhere in this report.

**Key Business Metrics**

We regularly review a number of metrics, including the key metrics listed below, to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections, and make operating and strategic decisions. We believe it is important to evaluate these metrics for the United States and International segments. The International segment derives revenues from marketplace subscriptions, advertising services, and other revenues from customers outside of the United States. International markets will likely perform differently from the United States market due to a variety of factors, including our operating history in the market, our rate of investment, market size, market maturity, and other dynamics unique to each country.

***Monthly Unique Users***

For each of our websites, we define a monthly unique user as an individual who has visited such website within a calendar month, based on data as measured by Google Analytics. We calculate average monthly unique users as the sum of the monthly unique users in a given period, divided by the number of months in that period. We count a unique user the first time a computer or mobile device with a unique device identifier accesses a website during a calendar month. If an individual accesses a website using a different device within a given month, the first access by each such device is counted as a separate unique user. We view our average monthly unique users as a key indicator of the quality of our user experience, the effectiveness of our advertising and traffic acquisition, and the strength of our brand awareness. Measuring unique users is important to us because our marketplace subscription revenue depends, in part, on our ability to provide dealers with connections to our users and exposure to our marketplace audience. We define connections as interactions between consumers and dealers on our marketplace through phone calls, email, managed text and chat, and clicks to access the dealer's website or map directions to the dealership.

| Average Monthly Unique Users | Three Months Ended June 30, 2018 | 2017 |
|---|---|---|
| | (in thousands) | |
| United States | 36,046 | 23,099 |
| International | 3,484 | 2,259 |
| Total | 39,530 | 25,358 |

***Monthly Sessions***

We define monthly sessions as the number of distinct visits to our websites that take place each month within a given time frame, as measured and defined by Google Analytics. We calculate average monthly sessions as the sum of the monthly sessions in a given period, divided by the number of months in that period. A session is defined as beginning with the first page view from a device and ending at the earliest of when a user closes their browser window, after 30 minutes of inactivity, or at midnight Eastern Time each night. A session can be made up of multiple page views and visitor actions, such as performing a search, visiting vehicle detail pages, and connecting with a dealer. We believe the volume of sessions in a time period, when considered in conjunction with the number of unique users in that time period, is an indicator of consumer satisfaction and engagement with our marketplace.

| Average Monthly Sessions | Three Months Ended June 30, 2018 | 2017 |
|---|---|---|
| | (in thousands) | |
| United States | 93,324 | 61,326 |
| International | 7,978 | 4,972 |
| Total | 101,302 | 66,298 |

***Number of Paying Dealers***

A paying dealer is a dealer, based on a distinct associated inventory feed, that subscribes to our Enhanced or Featured Listing product at the end of a defined period. We believe that the number of paying dealers is indicative of the value proposition of our Listing products, and our sales and marketing success, including our ability to retain paying dealers and develop new dealer relationships.

| Number of Paying Dealers | At June 30, 2018 | 2017 |
|---|---|---|
| United States | 26,871 | 23,347 |
| International | 3,098 | 1,694 |
| Total | 29,969 | 25,041 |

***Average Annual Revenue per Subscribing Dealer (AARSD)***

We measure the average annual revenue we receive from each paying dealer. We define AARSD, which is measured at the end of a defined period, as the total marketplace subscription revenue during the trailing 12 months divided by the average number of paying dealers during the same trailing 12-month period. We believe that our ability to grow AARSD is an indicator of the value proposition of our products and the return on investment, or ROI, our paying dealers realize from our products. Increases in AARSD, which we believe reflect the value of exposure to our engaged audience in relation to subscription cost, are driven by our ability to grow the volume of connections to our users and the quality of those connections, which result in increased opportunity to upsell package levels and cross-sell additional products to our paying dealers.

| Average Annual Revenue per Subscribing Dealer (AARSD) | At June 30, 2018 | 2017 |
|---|---|---|
| United States | $ 13,130 | $ 11,048 |
| International | $ 5,037 | $ 4,944 |
| Consolidated | $ 12,425 | $ 10,759 |

*Adjusted EBITDA*

To provide investors with additional information regarding our financial results, we monitor and have presented within this Quarterly Report, Adjusted EBITDA, which is a non-GAAP financial measure. This non-GAAP financial measure is not based on any standardized methodology prescribed by GAAP and is not necessarily comparable to similarly titled measures presented by other companies.

We define Adjusted EBITDA as net income, adjusted to exclude: depreciation and amortization, stock-based compensation expense, other (income), net, the (benefit from) provision for income taxes, and certain one-time, non-recurring items, if and when applicable. We have presented Adjusted EBITDA in this Quarterly Report because it is a key measure used by our management and board of directors to understand and evaluate our operating performance, generate future operating plans, and make strategic decisions regarding the allocation of capital. In particular, we believe that the exclusion of certain items in calculating Adjusted EBITDA can produce a useful measure for period-to-period comparisons of our business.

We use Adjusted EBITDA to evaluate our operating performance and trends and make planning decisions. We believe Adjusted EBITDA helps identify underlying trends in our business that could otherwise be masked by the effect of the expenses that we exclude. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results, enhancing the overall understanding of our past performance and future prospects, and allowing for greater transparency with respect to key financial metrics used by our management in its financial and operational decision-making. In addition, we evaluate our Adjusted EBITDA in relation to our revenue. We refer to this as Adjusted EBITDA margin and define it as Adjusted EBITDA divided by total revenue.

Our Adjusted EBITDA is not prepared in accordance with GAAP, and should not be considered in isolation of, or as an alternative to, measures prepared in accordance with GAAP. There are a number of limitations related to the use of Adjusted EBITDA rather than net income, which is the most directly comparable GAAP equivalent. Some of these limitations are:

- Adjusted EBITDA excludes stock-based compensation expense, which will be, for the foreseeable future, a significant recurring expense for our business and an important part of our compensation strategy;
- Adjusted EBITDA excludes depreciation and amortization expense and, although these are non-cash expenses, the assets being depreciated may have to be replaced in the future;
- Adjusted EBITDA does not reflect interest expense, or the cash requirements necessary to service interest, which reduce cash available to us;
- Adjusted EBITDA does not reflect income tax payments or tax benefits that reduce cash available to us; and
- other companies, including companies in our industry, may calculate Adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

Because of these limitations, we consider, and you should consider, Adjusted EBITDA together with other operating and financial performance measures presented in accordance with GAAP. The following table presents a reconciliation of Adjusted EBITDA to net income, the most directly comparable measure calculated in accordance with GAAP, for each of the periods presented.

| | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
|---|---|---|---|---|
| **Reconciliation of Adjusted EBITDA:** | (in thousands) | | | |
| Net income | $ 31,265 | $ 4,346 | $ 34,916 | $ 8,553 |
| Depreciation and amortization | 1,220 | 917 | 2,457 | 1,587 |
| Stock-based compensation expense | 5,605 | 74 | 9,423 | 150 |
| Other (income), net | (703) | (53) | (985) | (217) |
| (Benefit from) provision for income taxes | (29,118) | 1,702 | (28,565) | 4,043 |
| Adjusted EBITDA | $ 8,269 | $ 6,986 | $ 17,246 | $ 14,116 |

## Components of Consolidated Statements of Operations

### *Revenue*

Our revenue is derived from two primary sources: (i) marketplace subscription revenue and (ii) advertising and other revenue, as described below.

*Marketplace Subscription Revenue*

We offer three types of marketplace Listing products to our dealers: Basic Listing, which is free; and Enhanced and Featured Listings, which each require a paid subscription under a monthly, quarterly, semiannual, or annual subscription basis. Subscription pricing is determined based on a dealer's inventory size, region, and our assessment of the connections and ROI our platform will provide to it. We also offer Listing dealers access to our Dealer Dashboard, which includes a performance summary, Dealer Insights tool, user review management platform, Pricing Tool, and Market Analysis tool. The Pricing Tool and Market Analysis tool are available only to paying dealers.

In addition to listing their inventory in our marketplace and providing them access to our Dealer Dashboard, we offer Enhanced and Featured Listing dealers other subscription advertising and customer acquisition products, including display advertising that appears in our marketplace and on other sites on the internet, which can be targeted by geography, search history, and a number of other factors, and SEM Plus, which helps dealers more effectively acquire customers through paid search, social media, and retargeted advertising.

Marketplace subscription revenue is recognized on a monthly basis as the service is delivered to the dealer.

*Advertising and Other Revenue*

Advertising and other revenue consists primarily of non-dealer display advertising revenue from auto manufacturers and other auto-related brand advertisers sold on a cost per thousand impressions, or CPM, basis. An impression is an advertisement loaded on a web page. In addition to advertisers sold on a CPM basis, we also have advertisers sold on a cost per click basis. Auto manufacturers and other brand advertisers can execute advertising campaigns that are targeted across a wide variety of parameters, including demographic groups, behavioral characteristics, specific auto brands, categories such as Certified Pre-Owned, and segments such as hybrid vehicles.

### *Cost of Revenue*

Cost of revenue primarily consists of costs related to supporting and hosting our product offerings. These costs include salaries, benefits, incentive compensation, and stock-based compensation expense related to the customer support team and third-party service provider costs such as data center and networking expenses, allocated overhead, depreciation and amortization expense associated with our property and equipment, and amortization of capitalized website development costs. We allocate overhead costs, such as rent and facility costs, information technology costs, and employee benefit costs, to all departments based on headcount. As such, general overhead expenses are reflected in cost of revenue and each operating expense category. We expect these expenses to increase as we continue to scale our business and introduce new products.

### *Operating Expenses*

*Sales and Marketing*

Sales and marketing expenses consist primarily of personnel and related expenses for our sales and marketing staff, including salaries, benefits, incentive compensation, commissions, stock-based compensation, and travel costs; costs associated with consumer marketing, such as traffic acquisition, brand building, and public relations activities; costs associated with dealer marketing, such as content marketing, customer and promotional events, and industry events; and allocated overhead. We expect sales and marketing expenses to increase as we grow our audience and attempt to strengthen our brand awareness and, as informed by trends in our business and the competitive landscape of our market, fluctuate from quarter to quarter, which will impact our quarterly results of operations.

*Product, Technology, and Development*

Product, technology, and development expenses, which include research and development costs, consist primarily of personnel costs of our development team, including payroll, benefits, stock-based compensation expense and allocated overhead costs. Other than website development costs that qualify for capitalization, research and development costs are expensed as incurred. We expect product, technology, and development expenses to increase as we develop new solutions and make improvements to our existing platform.

*General and Administrative*

General and administrative expenses consist of personnel costs and related expenses for executive, finance, legal, human resources, and administrative personnel, including salaries, benefits, incentive compensation, and stock-based compensation expenses, in addition to the costs associated with professional fees for external legal, accounting and other consulting services, insurance premiums, payment processing and billing costs, and allocated overhead costs. We expect general and administrative expenses to increase as we continue to incur the costs of compliance associated with being a publicly traded company, including legal, audit, and consulting fees.

*Depreciation and Amortization*

Depreciation and amortization expenses consist of depreciation on property and equipment and leasehold improvements.

***Other Income, net***

Other income, net consists primarily of interest income earned on our cash, cash equivalents, and investments, interest expense on lease obligations, and net foreign exchange gains and losses.

***(Benefit from) Provision for Income Taxes***

We are subject to federal and state income taxes in the United States and taxes in foreign jurisdictions in which we operate. We have recorded a benefit from income taxes for the three months ended June 30, 2018 compared to a tax provision for the three months ended June 30, 2017. We recognize deferred tax assets and liabilities based on temporary differences between the financial reporting and income tax bases of assets and liabilities using statutory rates. We regularly assess the need to record a valuation allowance against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. We have not provided a valuation allowance against our net deferred tax assets at June 30, 2018 or December 31, 2017.

**Results of Operations**

The following table sets forth our selected consolidated statements of operations data for each of the periods indicated. The period-to-period comparison of financial results is not necessarily indicative of future results.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (dollars in thousands) | | | |
| Revenue: | | | | |
| Marketplace subscription | $ 97,749 | $ 67,780 | $ 187,035 | $ 127,952 |
| Advertising and other | 12,576 | 8,460 | 21,991 | 15,323 |
| Total revenue | 110,325 | 76,240 | 209,026 | 143,275 |
| Cost of revenue | 5,959 | 4,322 | 11,528 | 7,647 |
| Gross profit | 104,366 | 71,918 | 197,498 | 135,628 |
| Operating expenses: | | | | |
| Sales and marketing | 80,933 | 55,533 | 152,441 | 104,604 |
| Product, technology, and development | 11,844 | 4,709 | 20,942 | 8,357 |
| General and administrative | 9,541 | 5,033 | 17,412 | 9,092 |
| Depreciation and amortization | 604 | 648 | 1,337 | 1,196 |
| Total operating expenses | 102,922 | 65,923 | 192,132 | 123,249 |
| Income from operations | 1,444 | 5,995 | 5,366 | 12,379 |
| Other income, net | 703 | 53 | 985 | 217 |
| Income before income taxes | 2,147 | 6,048 | 6,351 | 12,596 |
| (Benefit from) provision for income taxes | (29,118) | 1,702 | (28,565) | 4,043 |
| Net income | $ 31,265 | $ 4,346 | $ 34,916 | $ 8,553 |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (dollars in thousands) | | | |
| **Additional Financial Data:** | | | | |
| **Revenue** | | | | |
| United States | $ 106,397 | $ 74,142 | $ 201,564 | $ 139,560 |
| International | 3,928 | 2,098 | 7,462 | 3,715 |
| Total | $ 110,325 | $ 76,240 | $ 209,026 | $ 143,275 |
| **Income (Loss) from Operations** | | | | |
| United States | $ 9,659 | $ 12,152 | $ 21,244 | $ 24,280 |
| International | (8,215) | (6,157) | (15,878) | (11,901) |
| Total | $ 1,444 | $ 5,995 | $ 5,366 | $ 12,379 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue: | | | | |
| Marketplace subscription | 89% | 89% | 89% | 89% |
| Advertising and other | 11 | 11 | 11 | 11 |
| Total revenue | 100% | 100% | 100% | 100% |
| Cost of revenue | 5 | 6 | 6 | 5 |
| Gross profit | 95 | 94 | 94 | 95 |
| Operating expenses: | | | | |
| Sales and marketing | 73 | 72 | 72 | 73 |
| Product, technology, and development | 11 | 6 | 10 | 6 |
| General and administrative | 9 | 7 | 8 | 6 |
| Depreciation and amortization | 1 | 1 | 1 | 1 |
| Total operating expenses | 94 | 86 | 91 | 86 |
| Income from operations | 1 | 8 | 3 | 9 |
| Other income, net | 1 | — | — | — |
| Income before income taxes | 2 | 8 | 3 | 9 |
| (Benefit from) provision for income taxes | (26) | 2 | (14) | 3 |
| Net income | 28% | 6% | 17% | 6% |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Additional Financial Data:** | | | | |
| **Revenue** | | | | |
| United States | 96% | 97% | 96% | 97% |
| International | 4 | 3 | 4 | 3 |
| Total | 100% | 100% | 100% | 100% |
| **Income (Loss) from Operations** | | | | |
| United States | 8% | 16% | 10% | 17% |
| International | (7) | (8) | (7) | (8) |
| Total | 1% | 8% | 3% | 9% |

***For the three months ended June 30, 2018 and 2017***

***Revenue***

*Revenue by Source*

| | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 | Change Amount | Change % |
|---|---|---|---|---|
| | (dollars in thousands) | | | |
| **Revenue** | | | | |
| Marketplace subscription | $ 97,749 | $ 67,780 | $ 29,969 | 44% |
| Advertising and other | 12,576 | 8,460 | 4,116 | 49 |
| Total | $ 110,325 | $ 76,240 | $ 34,085 | 45% |
| **Percentage of total revenue:** | | | | |
| Marketplace subscription | 89% | 89% | | |
| Advertising and other | 11 | 11 | | |
| Total | 100% | 100% | | |

Overall revenue increased by $34.1 million, or 45%, in the three months ended June 30, 2018 compared to the three months ended June 30, 2017. Marketplace subscription revenue increased by 44%, while advertising and other revenue grew by 49%.

Marketplace subscription revenue increased by $30.0 million in the three months ended June 30, 2018 compared to the three months ended June 30, 2017 and represented 89% of total revenue for both the three months ended June 30, 2018 and 2017. This increase in marketplace subscription revenue was attributable primarily to a 20% growth in the number of United States and International paying dealers, to 29,969 as of June 30, 2018 from 25,041 as of June 30, 2017, and to a 15% growth in our consolidated AARSD to $12,425 as of June 30, 2018 from $10,759 as of June 30, 2017. We believe that this increase in paying dealers was driven by the overall growth in the number of unique users to our websites and the efforts of our sales and marketing teams to subscribe dealers to our Enhanced and Featured Listing paid products.

Advertising and other revenue increased by $4.1 million in the three months ended June 30, 2018 compared to the three months ended June 30, 2017 and represented 11% of total revenue for both the three months ended June 30, 2018 and 2017. The increase in advertising and other revenue was due primarily to a 55% increase in the number of impressions delivered, which was partially offset by a 5% decrease in the average price per thousand impressions, in the three months ended June 30, 2018 compared to the three months ended June 30, 2017.

*Revenue by Segment*

| | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 | Change Amount | Change % |
|---|---|---|---|---|
| | (dollars in thousands) | | | |
| **Revenue** | | | | |
| United States | $ 106,397 | $ 74,142 | $ 32,255 | 44% |
| International | 3,928 | 2,098 | 1,830 | 87 |
| Total | $ 110,325 | $ 76,240 | $ 34,085 | 45% |
| **Percentage of total revenue:** | | | | |
| United States | 96% | 97% | | |
| International | 4 | 3 | | |
| Total | 100% | 100% | | |

United States revenue increased $32.3 million, or 44%, in the three months ended June 30, 2018 compared to the three months ended June 30, 2017, due primarily to a 15% increase in the number of United States paying dealers and a 19% increase in AARSD for United States dealers.

International revenue increased $1.8 million, or 87%, in the three months ended June 30, 2018 compared to the three months ended June 30, 2017, due primarily to an 83% increase in the number of International paying dealers. International paying dealers grew to 3,098 at June 30, 2018 from 1,694 at June 30, 2017.

***Cost of Revenue***

| | Three Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2018 | 2017 | Amount | % |
| | (dollars in thousands) | | | |
| Cost of revenue | $ 5,959 | $ 4,322 | $ 1,637 | 38% |
| Percentage of total revenue | 5% | 6% | | |

Cost of revenue increased $1.6 million, or 38%, in the three months ended June 30, 2018 compared to the three months ended June 30, 2017. The increase was due primarily to a $0.7 million increase in costs related to connecting consumers with dealers through a variety of methods, including phone calls, email, and managed text and chat, a $0.5 million increase in fees related to provisioning advertising campaigns on our websites, and a $0.3 million increase for data center and hosting costs.

***Operating Expenses***

*Sales and Marketing Expenses*

| | Three Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2018 | 2017 | Amount | % |
| | (dollars in thousands) | | | |
| Sales and marketing | $ 80,933 | $ 55,533 | $ 25,400 | 46% |
| Percentage of total revenue | 73% | 72% | | |

Sales and marketing expenses increased $25.4 million, or 46%, in the three months ended June 30, 2018 compared to the three months ended June 30, 2017. This increase was due primarily to an increase in advertising costs of $17.3 million, a $5.1 million increase in salaries and employee-related costs resulting from our 13% increase in headcount attributable to sales and marketing personnel and payroll taxes of $1.1 million driven by the employer portion of FICA taxes on the exercise of stock awards and vesting of RSUs, a $0.8 million increase in expenses related to marketing events and activities, and a $0.2 million increase in software subscriptions. This increase for the three months ended June 30, 2018 was also due in part to a $1.5 million increase in stock-based compensation expense primarily due to the recognition of expense related to restricted stock units, or RSUs. We did not recognize any stock-based compensation expense related to RSUs in the three months ended June 30, 2017 as the RSUs were subject to a performance condition that was satisfied upon the effectiveness of the registration statement for our IPO.

*Product, Technology, and Development Expenses*

| | Three Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2018 | 2017 | Amount | % |
| | (dollars in thousands) | | | |
| Product, technology, and development | $ 11,844 | $ 4,709 | $ 7,135 | 152% |
| Percentage of total revenue | 11% | 6% | | |

Product, technology, and development expenses increased $7.1 million, or 152%, in the three months ended June 30, 2018 compared to the three months ended June 30, 2017. The increase was due primarily to a $3.8 million increase in salaries and employee-related costs attributable to a 50% increase in headcount attributable to product, technology, and development personnel to support our growth and product innovations, and a $0.2 million increase in software subscriptions. This increase for the three months ended June 30, 2018 was also due in part to a $2.6 million increase in stock-based compensation expense related to RSUs. We did not recognize any stock-based compensation expense related to RSUs in the three months ended June 30, 2017.

*General and Administrative Expenses*

| | Three Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2018 | 2017 | Amount | % |
| | (dollars in thousands) | | | |
| General and administrative | $ 9,541 | $ 5,033 | $ 4,508 | 90% |
| Percentage of total revenue | 9% | 7% | | |

General and administrative expenses increased $4.5 million, or 90%, in the three months ended June 30, 2018 compared to the three months ended June 30, 2017. The change primarily reflected an increase of $1.4 million of salaries and employee-related costs as a result of our 43% increase in headcount attributable to general and administrative personnel as we continued to grow our business and required additional personnel to support our expanded operations and increased financial compliance requirements as a publicly traded company, a $0.8 million increase in insurance, legal, consulting and external reporting fees driven by costs incurred to comply with public company requirements, a $0.5 million increase in payment processing and billing costs due to increased customer transactions with higher billings due to revenue growth, and a $0.3 million increase in non-income taxes. This increase for the three months ended June 30, 2018 was also due in part to a $1.3 million increase in stock-based compensation expense related to RSUs. We did not recognize any stock-based compensation expense related to RSUs in the three months ended June 30, 2017.

*Depreciation and Amortization Expenses*

| | Three Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2018 | 2017 | Amount | % |
| | (dollars in thousands) | | | |
| Depreciation and amortization | $ 604 | $ 648 | $ (44) | (7)% |
| Percentage of total revenue | 1% | 1% | | |

Depreciation and amortization expenses remained relatively consistent as a percentage of total revenue in the three months ended June 30, 2018 compared to the three months ended June 30, 2017.

***Other Income, Net***

| | Three Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2018 | 2017 | Amount | % |
| | (dollars in thousands) | | | |
| Other income, net | $ 703 | $ 53 | $ 650 | NM |
| Percentage of total revenue | 1% | — | | |

Other income, net increased $0.7 million in the three months ended June 30, 2018 compared to the three months ended June 30, 2017, due primarily to the investment of cash in certificates of deposit and money market funds arising from our increased cash from operations and the funds raised in our IPO.

NM — Not Meaningful

***(Benefit from) Provision for Income Taxes***

| | Three Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2018 | 2017 | Amount | % |
| | (dollars in thousands) | | | |
| (Benefit from) provision for income taxes | $ (29,118) | $ 1,702 | $ (30,820) | NM |
| Percentage of total revenue | (26)% | 2% | | |

NM — Not Meaningful

The benefit recorded during the three months ended June 30, 2018, as compared to the provision recorded during the three months ended June 30, 2017, was principally due to $28.8 million in stock-based compensation windfall benefits recorded during three months ended June 30, 2018 as well as an increase in federal and state research and development tax credits and a lower federal statutory tax rate due to The Tax Cuts and Jobs Act, or the TCJA, as compared to the three months ended June 30, 2017.

***Income (Loss) from Operations by Segment***

| | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 | Change Amount | Change % |
|---|---|---|---|---|
| | (dollars in thousands) | | | |
| United States | $ 9,659 | $ 12,152 | $ (2,493) | (21)% |
| International | (8,215) | (6,157) | (2,058) | (33) |
| Total | $ 1,444 | $ 5,995 | $ (4,551) | (76)% |
| **Percentage of segment revenue:** | | | | |
| United States | 9% | 16% | | |
| International | NM | NM | | |

NM — Not Meaningful

United States income from operations decreased $2.5 million, or 21%, in the three months ended June 30, 2018 compared to the three months ended June 30, 2017. This decrease was due to increases in cost of revenue of $1.7 million and operating expenses of $33.1 million, offset in part by the increase in revenue of $32.3 million. The primary driver of the margin decrease in the three months ended June 30, 2018 compared to the three months ended June 30, 2017 was United States stock-based compensation expense, which increased to $5.2 million in the three months ended June 30, 2018 compared to $0.1 million in the three months ended June 30, 2017, related to RSUs.

International loss from operations increased $2.1 million, or 33%, in the three months ended June 30, 2018 compared to the three months ended June 30, 2017. The increase in International loss from operations reflects our continued investment into international markets and expansion into new countries.

***For the six months ended June 30, 2018 and 2017***

***Revenue***

*Revenue by Source*

| | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 | Change Amount | Change % |
|---|---|---|---|---|
| | (dollars in thousands) | | | |
| **Revenue** | | | | |
| Marketplace subscription | $ 187,035 | $ 127,952 | $ 59,083 | 46% |
| Advertising and other | 21,991 | 15,323 | 6,668 | 44 |
| Total | $ 209,026 | $ 143,275 | $ 65,751 | 46% |
| **Percentage of total revenue:** | | | | |
| Marketplace subscription | 89% | 89% | | |
| Advertising and other | 11 | 11 | | |
| Total | 100% | 100% | | |

Overall revenue increased by $65.8 million, or 46%, in the six months ended June 30, 2018 compared to the six months ended June 30, 2017. Marketplace subscription revenue increased by 46%, while advertising and other revenue grew by 44%.

Marketplace subscription revenue increased by $59.1 million in the six months ended June 30, 2018 compared to the six months ended June 30, 2017 and represented 89% of total revenue for both the six months ended June 30, 2018 and 2017. This increase in marketplace subscription revenue was attributable primarily to a 20% growth in the number of United States and International paying dealers, to 29,969 as of June 30, 2018 from 25,041 as of June 30, 2017, and to a 15% growth in our consolidated AARSD to $12,425 as of June 30, 2018 from $10,759 as of June 30, 2017. We believe that this increase in paying dealers was driven by the overall growth in the number of unique users to our websites and the efforts of our sales and marketing teams to subscribe dealers to our Enhanced and Featured Listing paid products.

Advertising and other revenue increased by $6.7 million in the six months ended June 30, 2018 compared to the six months ended June 30, 2017 and represented 11% of total revenue for both the six months ended June 30, 2018 and 2017. The increase in advertising and other revenue was due primarily to a 53% increase in the number of impressions delivered, which was partially offset by a 6% decrease in the average price per thousand impressions, in the six months ended June 30, 2018 compared to the six months ended June 30, 2017.

*Revenue by Segment*

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2018 | 2017 | Amount | % |
| | (dollars in thousands) | | | |
| **Revenue** | | | | |
| United States | $ 201,564 | $ 139,560 | $ 62,004 | 44% |
| International | 7,462 | 3,715 | 3,747 | 101 |
| Total | $ 209,026 | $ 143,275 | $ 65,751 | 46% |
| **Percentage of total revenue:** | | | | |
| United States | 96% | 97% | | |
| International | 4 | 3 | | |
| Total | 100% | 100% | | |

United States revenue increased $62.0 million, or 44%, in the six months ended June 30, 2018 compared to the six months ended June 30, 2017, due primarily to a 15% increase in the number of United States paying dealers and a 19% increase in AARSD for United States dealers.

International revenue increased $3.7 million in the six months ended June 30, 2018 compared to the six months ended June 30, 2017, due primarily to an increase in the number of International paying dealers. International paying dealers grew to 3,098 at June 30, 2018 from 1,694 at June 30, 2017.

***Cost of Revenue***

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2018 | 2017 | Amount | % |
| | (dollars in thousands) | | | |
| Cost of revenue | $ 11,528 | $ 7,647 | $ 3,881 | 51% |
| Percentage of total revenue | 6% | 5% | | |

Cost of revenue increased $3.9 million, or 51%, in the six months ended June 30, 2018 compared to the six months ended June 30, 2017. The increase was due primarily to a $1.5 million increase in costs related to connecting consumers with dealers through a variety of methods, including phone calls, email, and managed text and chat, a $1.0 million increase in fees related to provisioning advertising campaigns on our websites, a $0.6 million increase for data center and hosting costs, a $0.5 million increase in amortization of website development costs and a $0.3 million increase in employee-related costs for our customer support team to support the growth in customers.

***Operating Expenses***

*Sales and Marketing Expenses*

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2018 | 2017 | Amount | % |
| | (dollars in thousands) | | | |
| Sales and marketing | $ 152,441 | $ 104,604 | $ 47,837 | 46% |
| Percentage of total revenue | 72% | 73% | | |

Sales and marketing expenses increased $47.8 million, or 46%, in the six months ended June 30, 2018 compared to the six months ended June 30, 2017. This increase was due primarily to an increase in advertising costs of $34.6 million, an $8.3 million increase in salaries and employee-related costs resulting from our 13% increase in headcount attributable to sales and marketing personnel and payroll taxes of $1.5 million driven by the employer portion of FICA taxes on the exercise of stock awards and vesting of RSUs, a $1.3 million increase in expenses related to marketing events and activities, and a $0.4 million increase in software subscriptions. This increase for the six months ended June 30, 2018 was also due in part to a $2.5 million increase in stock-based compensation expense primarily due to the recognition of expense related to RSUs. We did not recognize any stock-based compensation expense related to RSUs in the six months ended June 30, 2017 as the RSUs were subject to a performance condition that was satisfied upon the effectiveness of the registration statement for our IPO.

*Product, Technology, and Development Expenses*

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2018 | 2017 | Amount | % |
| | (dollars in thousands) | | | |
| Product, technology, and development | $ 20,942 | $ 8,357 | $ 12,585 | 151% |
| Percentage of total revenue | 10% | 6% | | |

Product, technology, and development expenses increased $12.6 million, or 151%, in the six months ended June 30, 2018 compared to the six months ended June 30, 2017. The increase was due primarily to a $6.9 million increase in salaries and employee-related costs attributable to a 50% increase in headcount attributable to product, technology, and development personnel to support our growth and product innovations, a $0.3 million increase in software subscriptions and a $0.2 million increase in rent. This increase for the six months ended June 30, 2018 was also due in part to a $4.3 million increase in stock-based compensation expense related to RSUs. We did not recognize any stock-based compensation expense related to RSUs in the six months ended June 30, 2017.

*General and Administrative Expenses*

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2018 | 2017 | Amount | % |
| | (dollars in thousands) | | | |
| General and administrative | $ 17,412 | $ 9,092 | $ 8,320 | 92% |
| Percentage of total revenue | 8% | 6% | | |

General and administrative expenses increased $8.3 million, or 92%, in the six months ended June 30, 2018 compared to the six months ended June 30, 2017. The change primarily reflected an increase of $2.5 million of salaries and employee-related costs as a result of our 43% increase in headcount attributable to general and administrative personnel as we continued to grow our business and required additional personnel to support our expanded operations and increased financial compliance requirements as a publicly traded company, a $1.5 million increase in insurance, legal, consulting and external reporting fees driven by costs incurred to comply with public company requirements, a $0.9 million increase in payment processing and billing costs due to increased customer transactions with higher billings due to revenue growth, and a $0.6 million increase in non-income taxes. This increase for the six months ended June 30, 2018 was also due in part to a $2.4 million increase in stock-based compensation expense related to RSUs. We did not recognize any stock-based compensation expense related to RSUs in the six months ended June 30, 2017.

*Depreciation and Amortization Expenses*

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2018 | 2017 | Amount | % |
| | (dollars in thousands) | | | |
| Depreciation and amortization | $ 1,337 | $ 1,196 | $ 141 | 12% |
| Percentage of total revenue | 1% | 1% | | |

Depreciation and amortization expenses increased $0.1 million, or 12%, in the six months ended June 30, 2018 compared to the six months ended June 30, 2017, due primarily to an increased number of assets placed into service.

***Other Income, Net***

| | Six Months Ended June 30, 2018 | 2017 | Change Amount | % |
|---|---|---|---|---|
| | (dollars in thousands) | | | |
| Other income, net | $ 985 | $ 217 | $ 768 | 354% |
| Percentage of total revenue | — | — | | |

Other income, net increased $0.8 million, or 354%, in the six months ended June 30, 2018 compared to the six months ended June 30, 2017, due primarily to the investment of cash in certificates of deposit and money market funds arising from our increased cash from operations and the funds raised in our IPO.

***(Benefit from) Provision for Income Taxes***

| | Six Months Ended June 30, 2018 | 2017 | Change Amount | % |
|---|---|---|---|---|
| | (dollars in thousands) | | | |
| (Benefit from) provision for income taxes | $ (28,565) | $ 4,043 | $ (32,608) | NM |
| Percentage of total revenue | (14)% | 3% | | |

NM — Not Meaningful

The benefit recorded during the six months ended June 30, 2018, as compared to the provision recorded during the six months ended June 30, 2017, was principally due to $28.9 million in stock-based compensation windfall benefits recorded during the six months ended June 30, 2018, as well as an increase in federal and state research and development tax credits and a lower federal statutory tax rate due to the TCJA as compared to the six months ended June 30, 2017.

***Income (Loss) from Operations by Segment***

| | Six Months Ended June 30, 2018 | 2017 | Change Amount | % |
|---|---|---|---|---|
| | (dollars in thousands) | | | |
| United States | $ 21,244 | $ 24,280 | $ (3,036) | (13)% |
| International | (15,878) | (11,901) | (3,977) | (33) |
| Total | $ 5,366 | $ 12,379 | $ (7,013) | (57)% |
| **Percentage of segment revenue:** | | | | |
| United States | 11% | 17% | | |
| International | NM | NM | | |

NM — Not Meaningful

United States income from operations decreased $3.0 million, or 13%, in the six months ended June 30, 2018 compared to the six months ended June 30, 2017. This decrease was due to increases in cost of revenue of $3.8 million and operating expenses of $61.2 million, offset in part by the increase in revenue of $62.0 million.

International loss from operations increased $4.0 million, or 33%, in the six months ended June 30, 2018 compared to the six months ended June 30, 2017. The increase in International loss from operations reflects our continued investment into international markets and expansion into new countries.

**Liquidity and Capital Resources**

***Cash, Cash Equivalents and Investments***

At June 30, 2018 and December 31, 2017, our principal sources of liquidity were cash and cash equivalents of $31.8 million and $87.7 million, respectively, and investments in certificates of deposit with terms of greater than 90 days but less than one year of $110.0 million and $50.0 million at June 30, 2018 and December 31, 2017, respectively.

***Sources and Uses of Cash***

Our cash flows from operating, investing, and financing activities, as reflected in the Unaudited Condensed Consolidated Statements of Cash Flows, are summarized in the following table:

| | Six Months Ended June 30, | |
|---|---|---|
| | **2018** | **2017** |
| Net cash provided by operating activities | $ 23,848 | $ 10,090 |
| Net cash used in investing activities | (61,706) | (6,149) |
| Net cash used in financing activities | (16,245) | (137) |
| Impact of foreign currency on cash | (83) | 29 |
| Net (decrease) increase in cash, cash equivalents, and restricted cash | $ (54,186) | $ 3,833 |

Our operations have been financed primarily from operating activities, sales of preferred stock and our IPO. We generated cash from operating activities of $23.8 million during the six months ended June 30, 2018, and $10.1 million during the six months ended June 30, 2017, and we expect to generate cash from operations for the foreseeable future.

We believe that the proceeds from our IPO and our existing sources of liquidity will be sufficient to fund our operations for at least the next 12 months from the date of the filing of this Quarterly Report. However, our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities, the support of our product, technology, and development efforts, and the timing and extent of our investment in international markets. To the extent that existing cash, cash equivalents, and investments and cash from operations are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Additional funds may not be available on terms favorable to us, or at all.

***Operating Activities***

Cash provided by operating activities during the first six months of 2018 was $23.8 million, due primarily to net income of $34.9 million, $9.4 million of stock-based compensation expense and an increase in accounts payable of $7.3 million, offset by a benefit of $28.2 million for income taxes.

Cash provided by operating activities during the first six months of 2017 was $10.1 million, due primarily to net income of $8.6 million, a $2.1 million increase in accrued income taxes, $1.6 million of depreciation and amortization, and a $1.2 million increase in accounts payable. These increases were partially offset by a $2.9 million decrease in accrued expenses and a $2.7 million increase in accounts receivable.

***Investing Activities***

Our investing activities consist primarily of purchases of property and equipment, capitalized website development costs, and short-term investments.

Cash used in investing activities of $61.7 million during the first six months of 2018 was due to $130.0 million of investments in certificates of deposit, net of maturities of certificates of deposit of $70.0 million, $1.0 million related to investments in furniture, computer equipment, and leasehold improvements and $0.7 million of the capitalization of website development costs.

Cash used in investing activities of $6.1 million during the first six months of 2017 was due to $30.0 million of investments in certificates of deposit, net of maturities of $26.8 million, $2.0 million of investments in furniture, computer equipment, and leasehold improvements, and $0.9 million related to the capitalization of website development costs.

***Financing Activities***

Cash used in financing activities of $16.2 million during the first six months of 2018 was due to payment of withholding taxes on net share settlements of equity awards of $17.5 million, payment of IPO costs of $1.1 million, offset in part by $2.4 million related to the proceeds from the issuance of common stock related to the exercise of vested stock options.

Cash used in financing activities of $0.1 million during the first six months of 2017 primarily reflects $0.3 million of IPO costs, partially offset by $0.2 million related to the proceeds from the issuance of common stock related to the exercise of vested stock options.

**Contractual Obligations and Known Future Cash Requirements**

As of June 30, 2018, there were no material changes in our contractual obligations and commitments from those disclosed in our 2017 Annual Report, other than those appearing in the notes to the Unaudited Condensed Consolidated Financial Statements appearing elsewhere in this Quarterly Report, which are hereby incorporated by reference.

Our lease obligations consist of various leases for office space in: Cambridge, Massachusetts; Detroit, Michigan; and Dublin, Ireland, with various lease terms through 2033. The terms of our Massachusetts lease agreements provide for rental payments that increase on an annual basis. We recognize rent expense on a straight-line basis over the lease period. We do not have any debt or material capital lease obligations as of June 30, 2018 and all of our property, equipment, and software have been purchased with cash, with the exception of $712 of unpaid property and equipment costs at June 30, 2018. We have no material long-term purchase obligations outstanding with any vendors or third parties.

**Off-Balance Sheet Arrangements**

As of June 30, 2018 and December 31, 2017, we did not have any off-balance sheet arrangements, except for operating leases entered into in the normal course of business, that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

**Critical Accounting Policies and Significant Estimates**

In preparing our Unaudited Condensed Consolidated Financial Statements in accordance with GAAP, we are required to make estimates and assumptions that affect the amounts of assets, liabilities, revenue, costs and expenses, and disclosure of contingent assets and liabilities that are reported in the Unaudited Condensed Consolidated Financial Statements and accompanying disclosures. The accounting estimates that require the most difficult and subjective judgments include revenue recognition and revenue reserves, contingent liabilities, allowances for doubtful accounts, expected future cash flows used to evaluate the recoverability of long-lived assets, the expensing and capitalization of product, technology, and development costs for website development and internal-use software, the determination of the fair value of stock awards issued, stock-based compensation expense, and the recoverability of our net deferred tax assets and related valuation allowance. Therefore, we consider these to be our critical accounting policies. Accordingly, we evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates and assumptions. For a detailed explanation of the judgments made in these areas, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2017 Annual Report.

**Emerging Growth Company Status**

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act, or JOBS Act, and we take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies. We may take advantage of these exemptions until we cease to be an emerging growth company. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period afforded by the JOBS Act for the implementation of new or revised accounting standards. We have elected to use the extended transition period for complying with new or revised accounting standards; and as a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates. We may take advantage of these exemptions up until the last day of the fiscal year following the fifth anniversary of the IPO or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company if we have more than $1.07 billion in annual revenue, as of the end of our fiscal year if we have more than $700.0 million in market value of our stock held by non-affiliates as of the last business day of our most recently completed second fiscal quarter (and we have been a public company for at least 12 months, and have filed one Annual Report on Form 10-K), or if we issue more than $1.0 billion of non-convertible debt securities over a three-year period.

Because the market value of our Class A common stock held by non-affiliates exceeded $700.0 million as of June 29, 2018 (and we will have been a public company for at least 12 months and have filed our 2017 Annual Report), we will cease to be an emerging growth company as of December 31, 2018. As a result, beginning with our Annual Report on Form 10-K for the year ending December 31, 2018, we will be subject to certain requirements that apply to other public companies but did not previously apply to us due to our status as an emerging growth company, including the provisions of Section 404 of the Sarbanes-Oxley Act, which require that our independent registered public accounting firm provide an attestation report on the effectiveness of our internal control over financial reporting.

**Recently Issued Accounting Pronouncements**

Information concerning recently issued accounting pronouncements may be found in Note 2 to our Unaudited Condensed Consolidated Financial Statements included in this Quarterly Report.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Market risk represents the risk of loss that may affect our financial position due to adverse changes in financial market prices and rates. We are exposed to market risks as described below.

***Interest Rate Risk***

We did not have any long-term borrowings at June 30, 2018 or at December 31, 2017.

We had cash, cash equivalents, and investments of $141.8 million and $137.7 million at June 30, 2018 and December 31, 2017, respectively, which consist of bank deposits, money market funds, and certificates of deposit with maturity dates ranging from six to twelve months. Such interest-earning instruments carry a degree of interest rate risk. To date, fluctuations in interest income have not been significant.

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

***Inflation Risk***

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

***Foreign Currency Exchange Risk***

Historically, because our operations and sales have been primarily in the United States, we have not faced any significant foreign currency risk. As of June 30, 2018 and December 31, 2017, we have foreign currency exposures in the British pound, the Euro and the Canadian dollar, although such exposure is not significant.

Our foreign subsidiaries have intercompany accounts that are eliminated upon consolidation, and these accounts expose us to foreign currency exchange rate fluctuations. Exchange rate fluctuations on short-term intercompany accounts are recorded in our Unaudited Condensed Consolidated Income Statements under other income, net.

**Item 4. Controls and Procedures**

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act), as of the end of the period covered by this Quarterly Report. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this Quarterly Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

From time to time we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. We are not presently subject to any pending or threatened litigation that we believe, if determined adversely to us, would individually, or taken together, reasonably be expected to have a material adverse effect on our business or financial results.

### Item 1A. Risk Factors.

*Investing in our Class A common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information contained in this report, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes, before evaluating our business. Our business, financial condition, operating results, cash flow, and prospects could be materially and adversely affected by any of these risks or uncertainties. In that event, the trading price of our Class A common stock could decline. See "Special Note Regarding Forward-Looking Statements."*

### Risks Related to Our Business and Industry

***Our business is substantially dependent on our relationships with dealers, and our subscription agreements with these dealers do not contain long-term contractual commitments. If a significant number of dealers terminate their subscription agreements with us, our business and financial results would be materially and adversely affected.***

Our primary source of revenue consists of subscription fees paid to us by dealers for access to enhanced features on our automotive marketplace. Our subscription agreements with dealers generally may be terminated by us with 30 days' notice and by dealers with 30 days' notice at the end of the committed term. While the majority of our contracts with dealers currently provide for one-month committed terms, we are transitioning many of these dealers to contracts with one-year committed terms. The contracts do not contain contractual obligations requiring a dealer to maintain its relationship with us beyond the committed term. Accordingly, these dealers may cancel their subscriptions with us in accordance with the terms of their subscription agreements. If a significant number of our paying dealers terminate their subscriptions with us, our revenue would be materially and adversely affected.

***If we fail to maintain or increase the number of dealers that pay subscription fees to us, or fail to maintain or increase the fees paid to us for subscriptions, our business and financial results would be harmed.***

If paying dealers do not experience the volume of consumer connections that they expect during their monthly or annual subscription period, or do not experience the level of car sales they expect from those connections, they may terminate their subscriptions at the conclusion of the committed term or may only be willing to renew their subscriptions at a lower level of fees. Even if dealers do experience increased consumer connections or sales, they may not attribute such increases to our marketplace. If we fail to expand our base of paying dealers or fail to maintain or increase the level of fees that we receive from them, our business and financial results would be materially and adversely affected.

We allow dealers to list their inventory in our marketplace for free; however, dealer identity and contact information are not permitted in such free listings and these dealers do not receive access to the paid features of our marketplace. Many dealers start with us on a non-paying basis and then become paying customers in order to take advantage of the features of our Enhanced or Featured Listing products. If dealers do not subscribe to our paid offerings at the rates we expect, or if a greater than expected number of our paying dealers elect to terminate their subscriptions, our business and financial results would be harmed.

***If dealers or other advertisers reduce their advertising spend with us and we are unable to attract new advertisers, our business would be harmed.***

A significant amount of our revenue is derived from advertising revenues generated primarily through advertising sales, including for display advertising and retargeting services, to dealers, auto manufacturers, and other auto-related brand advertisers. We compete for this advertising revenue with other online automotive marketplaces and with television, print media, and other traditional advertising channels. Our ability to attract and retain advertisers, and to generate advertising revenue, depends on a number of factors, including:

- our ability to increase the number of consumers using our marketplace;
- our ability to compete effectively for advertising spending with other online automotive marketplaces;
- our ability to continue to develop our advertising products;

- our ability to keep pace with changes in technology and the practices and offerings of our competitors; and
- our ability to offer an attractive ROI to our advertisers for their advertising spend with us.

Our agreements with dealers for display advertising generally include terms ranging from one month to one year and may be terminated by us with 30 days' notice and by dealers with 30 days' notice at the end of the committed term. The contracts do not contain contractual obligations requiring an advertiser to maintain its relationship with us beyond the committed term. Our other advertising contracts, including those with auto manufacturers, are typically for a defined period of time and do not have ongoing commitments to advertise on our websites beyond the committed term. We may not succeed in capturing a greater share of our advertisers' spending if we are unable to convince advertisers of the effectiveness or superiority of our advertising services as compared to alternative channels. If current advertisers reduce or end their advertising spending with us and we are unable to attract new advertisers, our advertising revenue and business and financial results would be harmed.

***If we are unable to provide a compelling vehicle search experience to consumers through our platform, the number of connections between consumers and dealers using our marketplace may decline and our business and financial results would be materially and adversely affected.***

If we fail to continue to provide a compelling vehicle search experience to consumers, the number of connections between consumers and dealers through our marketplace could decline, which in turn could lead dealers to stop listing their inventory in our marketplace, cancel their subscriptions, or reduce their advertising spend with us. If dealers stop listing their inventory in our marketplace, we may not be able to maintain and grow our consumer traffic, which may cause other dealers to stop using our marketplace. This reduction in the number of dealers using our marketplace would likely adversely affect our marketplace and our business and financial results. As consumers increasingly use their mobile devices to access the internet and our marketplace, our success will depend, in part, on our ability to provide consumers with a robust and user-friendly experience through their mobile devices. We believe that our ability to provide a compelling vehicle search experience, both on the web and through mobile devices, is subject to a number of factors, including:

- our ability to maintain an attractive marketplace for consumers and dealers, including on mobile platforms;
- our ability to continue to innovate and introduce products for our marketplace on mobile platforms;
- our ability to launch new products that are effective and have a high degree of consumer engagement;
- our ability to maintain the compatibility of our mobile application with operating systems, such as iOS and Android, and with popular mobile devices running such operating systems; and
- our ability to access and analyze a sufficient amount of data to enable us to provide relevant information to consumers, including pricing information and accurate vehicle details.

If the use of our marketplace, particularly on mobile devices, does not continue to grow, our business and operating results would be harmed.

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

We depend, in part, on internet search engines such as Google, Bing, and Yahoo! to drive traffic to our websites. The number of consumers we attract to our marketplace from search engines is due in part to how and where our websites rank in unpaid search results. These rankings can be affected by a number of factors, many of which are not under our direct control and may change frequently. For example, when a consumer searches for a vehicle in an internet search engine, we rely on a high organic search ranking of our webpages to refer the consumer to our websites. Our competitors' internet search engine optimization efforts may result in their websites receiving higher search result rankings than ours, or internet search engines could change their methodologies in a way that would adversely affect our search result rankings. If internet search engines modify their search algorithms in ways that are detrimental to us, or if our competitors' efforts are more successful than ours, overall growth in our traffic could slow or our traffic could decline. In addition, internet search engine providers could provide dealer and pricing information directly in search results, align with our competitors, or choose to develop competing products. Search engines may also adopt a more aggressive auction-pricing system for keywords that would cause us to incur higher advertising costs or reduce our market visibility to prospective users. Our websites have experienced fluctuations in search result rankings in the past, and we anticipate fluctuations in the future. Any reduction in the number of consumers directed to our websites through internet search engines could harm our business and operating results.

***Any inability by us to develop new products, or achieve widespread consumer and dealer adoption of those products, could negatively impact our business and financial results.***

Our success depends on our continued innovation to provide products and services that make our marketplace, websites, and mobile application useful for consumers and dealers. These new products must be widely adopted by consumers and dealers in order for us to continue to attract consumers to our marketplace and dealers to our products and services. Accordingly, we must continually invest resources in product, technology, and development in order to improve the attractiveness and comprehensiveness of our marketplace and its related products and effectively incorporate new internet and mobile technologies into them. These product, technology, and development expenses may include costs of hiring additional personnel, engaging third-party service providers and other research and development activities. In addition, revenue relating to new products is typically unpredictable and our new products may have lower gross margins and higher marketing and sales costs than our existing products. We may also change our pricing models for both existing and new products so that our prices for our offerings reflect the value those offerings are providing to consumers and dealers. Our pricing models may not effectively reflect the value of products to consumers and dealers, and, if we are unable to provide a marketplace and products that consumers and dealers want to use, they may become dissatisfied and instead use our competitors' websites and mobile applications. Without an innovative marketplace and related products, we may be unable to attract additional, unique consumers or retain current consumers, which could affect the number of dealers that become paying dealers and the number of advertisers that want to advertise in our marketplace, which could, in turn, harm our business and financial results.

***We may be unable to maintain or grow relationships with data providers, or may experience interruptions in the data they provide, which may create a less valuable or transparent shopping experience and negatively affect our business and operating results.***

We obtain data from many third-party data providers, including inventory management systems, automotive website providers, customer relationship management systems, dealer management systems, governmental entities, and third-party data licensors. Our business relies on our ability to obtain data for the benefit of consumers and dealers using our marketplace. For example, our success in international markets is dependent in part upon our ability to obtain and maintain inventory data and other vehicle information for those markets. The large amount of inventory and vehicle information available in our marketplace is critical to the value we provide for consumers. The loss or interruption of such inventory data or other vehicle information could decrease the number of consumers using our marketplace. We could experience interruptions in our data access for a number of reasons, including difficulties in renewing our agreements with data providers, changes to the software used by data providers, efforts by industry participants to restrict access to data, and increased fees we may be charged by data providers. Our marketplace could be negatively affected if any current provider terminates its relationship with us or our service from any provider is interrupted. If there is a material disruption in the data provided to us, the information that we provide to consumers and dealers using our marketplace may be limited. In addition, the quality, accuracy, and timeliness of this information may suffer, which may lead to a less valuable and less transparent shopping experience for consumers using our marketplace and could materially and adversely affect our business and financial results.

***The failure to build and maintain our brand would harm our ability to grow our audience and to expand the use of our marketplace by consumers and dealers.***

While we are focused on building our brand recognition, maintaining and enhancing our brand will depend largely on the success of our efforts to maintain the trust of consumers and dealers and to deliver value to each consumer and dealer using our marketplace. If consumers were to believe that we are not focused on providing them with a better automobile shopping experience, our reputation and the strength of our brand may be adversely affected.

Complaints or negative publicity about our business practices, our marketing and advertising campaigns, our compliance with applicable laws and regulations, the integrity of the data that we provide to consumers, data privacy and security issues, and other aspects of our business, irrespective of their validity, could diminish consumers' and dealers' confidence and participation in our marketplace and could adversely affect our brand. There can be no assurance that we will be able to maintain or enhance our brand, and failure to do so would harm our business growth prospects and operating results.

Portions of our websites enable consumers and dealers using our sites to communicate with one another and other persons seeking information or advice on the internet. Claims of defamation or other injury could be made against us for content posted on our websites. In addition, negative publicity and user sentiment generated as a result of fraudulent or deceptive conduct by users of our marketplace could damage our reputation, reduce our ability to attract new users or retain our current users, and diminish the value of our brand.

***While we have historically focused our marketing efforts on internet and mobile channels, we have begun brand-focused campaigns using television, radio, social media and online video and these efforts may not be successful.***

As a consumer brand, it is important for us to increase the visibility of our brand with potential users of our marketplace. While we have historically focused our marketing efforts on internet and mobile channels, we have begun to advertise through television, radio, social media, online video, and other channels we have not used previously, with the goal of driving greater brand recognition, trust, and loyalty from a broader consumer audience. If our brand-focused campaigns are not successful and we are unable to recover our marketing costs through increases in user traffic and increased subscription and advertising revenue, or if we discontinue our brand marketing campaigns, it could have a material adverse effect on our business and financial results.

***Our recent, rapid growth is not indicative of our future growth, and our revenue growth rate will continue to decline in the future.***

Our revenue increased to $209.0 million for the six months ended June 30, 2018 from $143.3 million for the six months ended June 30, 2017, representing a 46% increase between such periods. In the future, our revenue growth rates will continue to decline as we achieve higher market penetration rates, as our revenue increases to higher levels, and as we experience increased competition. As our revenue growth rates decline, investors' perceptions of our business may be adversely affected and the market price of our Class A common stock could decline. In addition, we will not be able to grow as expected, or at all, if we do not accomplish the following:

- increase the number of consumers using our marketplace;
- maintain and expand the number of dealers that subscribe to our marketplace and maintain and increase the fees that they are paying;
- attract and retain advertisers placing advertisements in our marketplace;
- further improve the quality of our marketplace, and introduce high quality new products; and
- increase the number of connections between consumers and dealers using our marketplace.

***If we fail to expand effectively into new markets, both domestically and abroad, our revenue, business, and financial results will be harmed.***

We intend to continue to expand our operations to target new markets, both domestically and abroad, and there can be no assurance our expansion into these new markets will be successful. Our expansion into new markets places us in unfamiliar competitive environments and involves various risks, including the need to invest significant resources and the likelihood that returns on such investments will not be achieved for several years, or possibly at all. In attempting to establish a presence in new markets, we expect, as we have in the past, to incur significant losses in those markets and face various other challenges, such as obtaining and maintaining access to inventory data, competition for consumers and dealers using our marketplace, monetizing dealers, new regulatory environments and laws, different consumer shopping habits than those we are familiar with, and our ability to expand the number of our account managers to cover those new markets. Our current and any future expansion plans will require significant resources and management attention. Furthermore, expansion into international markets may not yield results similar to those we have achieved in the United States.

***Our international operations involve risks that are different from, or in addition to, the risks we may experience as a result of our domestic operations, and our exposure to these risks will increase as we expand internationally.***

We have started to expand our operations internationally and plan to continue to enter additional markets. We expect to expand our international operations significantly by continuing to enter new markets and expanding our offerings in new languages. In most international markets, we would not be the first entrant, and our competitors may be more established or otherwise better positioned than we are to succeed. Our competitors may offer services to dealers that make dealers dependent on them, such as hosting dealers' webpages and providing inventory feeds for dealers, which would make it difficult to attract dealers to our marketplace. Dealers may also be parties to agreements with other dealers and syndicates that prevent them from being able to access our marketplace. In addition, we may also face litigation from competitors in new markets. Any of these barriers could impede our expansion into international markets, which could affect our business and potential growth.

In addition to English, we have made portions of our platform available in French, German, Italian, and Spanish, and we will need to make all or portions of our platform available in additional languages as we launch in new countries. We may have difficulty modifying our technology and content for use in non-English speaking markets or fostering new communities in non-English speaking markets. Our ability to manage our business and conduct our operations internationally requires considerable management attention and resources, and is subject to the particular challenges of supporting a rapidly growing business in an environment of multiple languages, cultures, customs, legal and regulatory systems, alternative dispute resolution systems, and commercial infrastructures. Expanding internationally may subject us to new risks or increase our exposure in connection with current risks, including risks associated with:

- recruiting and retaining qualified, multilingual employees, including sales personnel;
- adapting the website to conform to local automobile shopping expectations;
- increased competition from local websites and periodicals and potential preferences by local populations for local providers;
- compliance with applicable foreign laws and regulations, including different privacy, censorship, and liability standards and regulations, and different intellectual property laws;
- providing solutions in different languages and for different cultures, which may require that we modify our solutions and features so they are culturally relevant in different countries;
- the enforceability of our intellectual property rights;
- credit risk and higher levels of payment fraud;
- compliance with anti-bribery laws, including compliance with the Foreign Corrupt Practices Act and the U.K. Bribery Act;
- currency exchange rate fluctuations;
- foreign exchange controls that might prevent us from repatriating cash earned outside the United States;
- political and economic instability in some countries;
- double taxation of our international earnings and potentially adverse tax consequences due to changes in the tax laws of the United States or the foreign jurisdictions in which we operate; and
- higher costs of doing business internationally.

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

We face significant competition from companies that provide listings, information, lead generation, and car-buying services designed to help consumers shop for cars and to enable dealers to reach these consumers. Our competitors offer various marketplaces, products, and services that compete with us. Some of these competitors include:

- major U.S. online automotive marketplaces: AutoTrader.com, Cars.com, and TrueCar.com;
- other U.S. automotive websites, such as Edmunds.com, KBB.com, and Carfax.com;
- online automotive marketplaces and websites in international markets;
- internet search engines;
- peer to peer marketplaces; and
- sites operated by individual automobile dealers.

We compete with these and other companies for a share of dealers' overall marketing budget for online and offline media marketing spend. To the extent that dealers view alternative marketing and media strategies to be superior to our marketplace, we may not be able to maintain or grow the number of dealers subscribing to, and advertising on, our marketplace, and our business and financial results may be harmed.

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

Our competitors could significantly impede our ability to expand the number of dealers using our marketplace. Our competitors may also develop and market new technologies that render our existing or future marketplace and associated products less competitive, unmarketable, or obsolete. In addition, if our competitors develop marketplaces with similar or superior functionality to ours, and our web traffic declines, we may need to decrease our subscription and advertising fees. If we are unable to maintain our current pricing structure due to competitive pressures, our revenue would likely be reduced and our financial results would be negatively affected.

Our existing and potential competitors may have significantly more financial, technical, marketing, and other resources than we have, and the ability to devote greater resources to the development, promotion, and support of their marketplaces, products, and services. They may also have more extensive automotive industry relationships than we have, longer operating histories, and greater name recognition. As a result, these competitors may be able to respond more quickly with new technologies and to undertake more extensive marketing or promotional campaigns than we can. Additionally, to the extent that any competitor has existing relationships with dealers or auto manufacturers for marketing or data analytics solutions, those dealers and auto manufacturers may be unwilling to partner with us. If we are unable to compete with these competitors, the demand for our marketplace and related products and services could substantially decline.

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

***Our business could be adversely affected if dealer associations or auto manufacturers were to discourage or otherwise deter dealers from subscribing to our marketplace.***

Although the dealership industry is highly fragmented, a small number of interested parties have significant influence over the industry. These parties include state and national dealership associations, state regulators, car manufacturers, consumer groups, independent dealers, and consolidated dealer groups. If and to the extent these parties believe that dealerships should not enter into or maintain subscription agreements with us, this belief could become shared by dealerships and we may lose a number of our paying dealers.

Furthermore, auto manufacturers may provide their franchise dealers with financial or other marketing support conditioned upon such dealers' adherence to certain marketing guidelines. Auto manufacturers may determine that the manner in which certain of their franchise dealers use our marketplace is inconsistent with the terms of such marketing guidelines, which determination could result in potential or actual loss of the manufacturers' financial or other marketing support to the dealers whose use of our marketplace is deemed objectionable. The potential or actual loss of such marketing support may cause such dealers to cease paying for our paid features, which may adversely affect our ability to maintain or grow the number of our paying dealers.

***Dealer closures or consolidations could reduce demand for our products, which may decrease our revenue.***

In the past, the number of United States dealers has declined due to dealership closures and consolidations as a result of factors such as global economic downturns. When dealers consolidate, the services they previously purchased separately are often purchased by the combined entity in a lesser quantity or for a lower aggregate price than before, leading to volume compression and loss of revenue. Further dealership consolidations or closures could reduce the aggregate demand for our products and services. If dealership closures and consolidations occur in the future, our business, financial position and results of operations could be materially and adversely affected.

***We rely on third-party service providers for many aspects of our business, and any failure to maintain these relationships could harm our business.***

Our success will depend upon our relationships with third parties, including those with our payment processor, our data center hosts, our information technology providers, our data providers for dealer inventory and vehicle information, our human resources information system provider, our billing subscription software provider, our customer relationship management software provider, our financial planning and analysis software provider, and our general ledger provider. If these third parties experience difficulty meeting our requirements or standards, or if the relationships we have established with such third parties expire or otherwise terminate, it could make it difficult for us to operate some aspects of our business, which could damage our business and reputation. In addition, if such third-party service providers were to cease operations, temporarily or permanently, face financial distress or other business disruptions, increase their fees, or if our relationships with these providers deteriorate or terminate, we could suffer increased costs and we may be unable to provide consumers with content or provide similar services until an equivalent provider could be found or we could develop replacement technology or operations. In addition, if we are unsuccessful in identifying or finding high-quality partners, if we fail to negotiate cost-effective relationships with them, or if we ineffectively manage these relationships, it could have an adverse impact on our business and financial results.

***If we continue to grow rapidly, we may not be able to manage our growth effectively.***

We have experienced rapid growth in our headcount and operations, which places substantial demand on management and our operational infrastructure. As we continue to grow, we must effectively integrate, develop, and motivate a large number of new employees, while maintaining the beneficial aspects of our company culture. If we do not manage the growth of our business and operations effectively, the quality of our services and efficiency of our operations could suffer, which could harm our brand, results of operations, and overall business.

***We depend on key personnel to operate our business, and if we are unable to retain, attract and integrate qualified personnel, our ability to develop and successfully grow our business could be harmed.***

We believe our success has depended, and continues to depend, on the efforts and talents of our executives and employees. Our future success depends on our continuing ability to attract, develop, motivate, and retain highly qualified and skilled employees. Qualified individuals are in high demand, and we may incur significant costs to attract and retain them. In addition, the loss of any of our executive officers or key employees could materially adversely affect our ability to execute our business plan and strategy, and we may not be able to find adequate replacements on a timely basis, or at all. Our executive officers and other employees are at-will employees, which means they may terminate their employment relationships with us at any time, and their knowledge of our business and industry would be extremely difficult to replace. We cannot ensure that we will be able to retain the services of any members of our senior management or other key employees. If we do not succeed in attracting well-qualified employees or retaining and motivating existing employees, our business could be materially and adversely affected.

***If we are unable to successfully respond to changes in the market, our business could be harmed.***

While our business has grown rapidly as consumers and dealers have increasingly accessed our marketplace, we expect that our business will evolve in ways which may be difficult to predict. For example, we anticipate that over time we may reach a point when investments in new user traffic are less productive and the continued growth of our revenue will require more focus on developing new products for consumers and dealers, expanding our marketplaces into new international markets to attract new consumers and dealers, and increasing our fees for our products. It is also possible that consumers and dealers could broadly determine that they no longer believe in the value of our marketplace. Our continued success will depend on our ability to successfully adjust our strategy to meet the changing market dynamics. If we are unable to do so, our business could be harmed and our results of operations and financial condition could be materially and adversely affected.

***We may be subject to disputes regarding the accuracy of Instant Market Value, Deal Rating, Dealer Rating, and other features of our marketplace.***

We provide consumers using our marketplace with our proprietary Instant Market Value, or IMV, Deal Rating, and Dealer Rating, as well as other features to help them evaluate vehicle listings. Revisions to our automated valuation models, or the algorithms that underlie them, may cause the IMV, the Deal Rating, or other features to vary from our expectations regarding the accuracy of these tools. In addition, from time to time, consumers and regulators may question or disagree with our IMV, Deal Rating, or Dealer Rating. Any such questions or disagreements could result in distraction from our business or potentially harm our reputation, could result in a decline in consumers' use of our marketplace and could result in legal disputes.

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

Various aspects of our business are, may become, or may be viewed by regulators from time to time as subject, directly or indirectly, to U.S. federal and state laws and regulations, and to foreign laws and regulations. Failure to comply with such laws or regulations may result in the suspension or termination of our ability to do business in affected jurisdictions, the imposition of significant civil and criminal penalties, including fines or the award of significant damages against us and dealers in class action or other civil litigation, or orders or settlements requiring us to make adjustments to our marketplace and related products and services.

*State Motor Vehicle Sales, Advertising and Brokering, and Consumer Protection Laws*

The advertising and sale of new or used motor vehicles is highly regulated by the states in which we do business. Although we do not sell motor vehicles, and although we believe that vehicle listings on our site are not themselves advertisements, state regulatory authorities or third parties could take the position that some of the laws or regulations applicable to dealers or to the manner in which motor vehicles are advertised and sold generally are directly applicable to our business. These state advertising laws and regulations are frequently subject to multiple interpretations and are not uniform from state to state, sometimes imposing inconsistent requirements with respect to new or used motor vehicles. If our marketplace and related products are determined to not comply with relevant regulatory requirements, we or dealers could be subject to significant civil and criminal penalties, including fines, or the award of significant damages in class actions or other civil litigation, as well as orders interfering with our ability to continue providing our marketplace and related products and services in certain states. In addition, even absent such a determination, to the extent dealers are uncertain about the applicability of such laws and regulations to our business, we may lose, or have difficulty increasing the number of paying dealers, which would affect our future growth. For example, in April 2015 the Texas Department of Motor Vehicles, or the TX DMV, notified us that it believed the Price History and IMV information on our website violated the prohibition on advertising savings clauses on used vehicles. The TX DMV informed us that if we failed to address the issue within 30 days, it would potentially subject dealers it considered to be advertising on our website to fines. After discussions with the TX DMV, we modified our website to remove the Price History and certain references and comparisons to IMV for used vehicles listed on our website that are for sale in Texas.

If state regulators or other third parties take the position in the future that our marketplace or related products violate applicable brokering, bird-dog, consumer protection, consumer finance or advertising laws or regulations, responding to such allegations could be costly, could require us to pay significant sums in settlements, could require us to pay civil and criminal penalties, including fines, could interfere with our ability to continue providing our marketplace and related products in certain states, or could require us to make adjustments to our marketplace and related products or the manner in which we derive revenue from dealers using our marketplace, any or all of which could result in substantial adverse publicity, termination of subscriptions by dealers, decreased revenues, distraction for our employees, increased expenses, and decreased profitability.

*Federal Laws and Regulations*

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

Our platform enables us, dealers, and users to send and receive text messages and other mobile phone communications. The Telephone Consumer Protection Act, or the TCPA, as interpreted and implemented by the Federal Communications Commission, or the FCC, and federal and state courts, imposes significant restrictions on utilization of telephone calls and text messages to residential and mobile telephone numbers as a means of communication, particularly if the prior express consent of the person being contacted has not been obtained. Violations of the TCPA may be enforced by the FCC, by state attorneys general, or by others through litigation, including class actions. Statutory penalties for TCPA violations range from $500 to $1,500 per violation, which is often interpreted to mean per phone call or text message. Furthermore, several provisions of the TCPA, as well as applicable rules and orders, are open to multiple interpretations, and compliance may involve fact-specific analyses.

Any failure by us, or the third parties on which we rely, to adhere to, or successfully implement, appropriate processes and procedures in response to existing or future laws and regulations could result in legal and monetary liability, fines and penalties, or damage to our reputation in the marketplace, any of which could have a material adverse effect on our business, financial condition, and results of operations. Even if the claims are meritless, we may be required to expend resources and pay costs to defend against regulatory actions or third-party claims. Additionally, any change to the TCPA or its interpretation that further restricts the way consumers and dealers interact through our platform, or any governmental or private enforcement actions related thereto, could adversely affect our ability to attract customers and could harm our business, financial condition, results of operations, and cash flows.

*Federal Antitrust Laws*

The antitrust laws prohibit, among other things, any joint conduct among competitors that would lessen competition in the marketplace. We believe that we are in compliance with the legal requirements imposed by the antitrust laws. However, a governmental or private civil action alleging the improper exchange of information, or unlawful participation in price maintenance or other unlawful or anticompetitive activity, even if unfounded, could be costly to defend and could harm our business, results of operations, financial condition, and cash flows.

*Other*

Claims could be made against us under both U.S. and foreign laws, including claims for defamation, libel, invasion of privacy, copyright or trademark infringement, or claims based on other theories related to the nature and content of the materials disseminated by users of our marketplace and portions of our websites. In addition, domestic and foreign legislation has been proposed that could prohibit or impose liability for the transmission over the internet of certain types of information. Our defense against any of these actions could be costly and involve significant time and attention of our management and other resources. If we become liable for information provided by our users and transmitted in our marketplace in any jurisdiction in which we operate, we could be directly harmed and we may be forced to implement new measures to reduce our exposure to this liability.

The foregoing description of laws and regulations to which we are or may be subject is not exhaustive, and the regulatory framework governing our operations is subject to continuous change. As we expand our operations internationally, we are, and we will continue to be, exposed to legal and regulatory risks including with respect to privacy, tax, law enforcement, content, intellectual property, and other matters. The enactment of new laws and regulations or the interpretation of existing laws and regulations, both domestically and internationally, in an unfavorable way may affect the operation of our business, directly or indirectly, which could result in substantial regulatory compliance costs, civil or criminal penalties, including fines, adverse publicity, loss of participating dealers, lost revenues, increased expenses, and decreased profitability. Further, investigations by governmental agencies, including the FTC, into allegedly anticompetitive, unfair, deceptive or other business practices by us or dealers using our marketplace, could cause us to incur additional expenses and, if adversely concluded, could result in substantial civil or criminal penalties and significant legal liability, or orders requiring us to make adjustments to our marketplace and related products and services.

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

Decreases in consumer demand could adversely affect the market for automobile purchases and, as a result, reduce the number of consumers using our platform. Consumer purchases of new and used automobiles generally decline during recessionary periods and other periods in which disposable income is adversely affected. Purchases of new and used automobiles are typically discretionary for consumers and have been, and may continue to be, affected by negative trends in the economy, including the cost of energy and gasoline, the availability and cost of credit, reductions in business and consumer confidence, stock market volatility, increased unemployment, and changing trade barriers, including increased tariff rates or custom duties.

Further, in recent years the market for motor vehicles has experienced rapid changes in technology and consumer demands. Self-driving technology, ride sharing, transportation networks, and other fundamental changes in transportation could impact consumer demand for the purchase of automobiles. A reduction in the number of automobiles purchased by consumers could adversely affect dealers and car manufacturers and lead to a reduction in other spending by these groups, including targeted incentive programs.

In addition, our business may be negatively affected by challenges to the larger automotive industry ecosystem, including global supply chain challenges, changes to trade policies, and other macroeconomic issues. For example, the United Kingdom's referendum to exit the European Union, or the EU, commonly referred to as "Brexit", could adversely affect European and global economic or market conditions, contribute to instability in global financial markets, and cause disruptions to and create uncertainty surrounding our business and operations in the United Kingdom. These factors could have a material adverse effect on our business, results of operations, and financial condition.

***Making decisions that we believe are in the best interests of our marketplace may cause us to forgo short-term gains in pursuit of potential but uncertain long-term growth.***

In the past, we have forgone, and we will in the future continue to forgo, certain expansion or short-term revenue opportunities that we do not believe are in the long-term best interests of our marketplace, even if such decisions negatively impact our results of operations in the short term. For example, we manage the text-chat feature of our websites where consumers can message paying dealers. Our management of this feature has helped improve dealer response times to consumers, which in turn improves the consumer experience. While our management of this feature provides value to both consumers and paying dealers and could be a potential source of short-term revenue for us, we are not currently charging for this feature and are instead focusing on the potential long-term value of this feature to our marketplace and its users. However, this strategy may not result in the long-term benefits that we expect, in which case our user traffic and engagement, business, and financial results could be harmed.

***A significant disruption in service on our websites could damage our reputation and result in a loss of consumers, which could harm our business, brand, operating results, and financial condition.***

Our brand, reputation, and ability to attract consumers, dealers, and advertisers depend on the reliable performance of our technology infrastructure and content delivery. We may experience significant interruptions with our systems in the future. Interruptions in these systems, whether due to system failures, computer viruses, ransomware, or physical or electronic break-ins, could affect the security or availability of our marketplace on our websites, and prevent or inhibit the ability of dealers and consumers to access our marketplace. For example, past disruptions have impacted our ability to activate customer accounts and manage our billing activities in a timely manner. Such interruptions could also result in third parties accessing our confidential and proprietary information, including our intellectual property. Problems with the reliability or security of our systems could harm our reputation, harm our ability to protect our confidential and proprietary information, result in a loss of consumers and dealers, and result in additional costs.

Substantially all of the communications, network, and computer hardware used to operate our platform is located in the United States in Boston, Massachusetts and Dallas, Texas, and in Europe in London, England. Although we have two locations in the United States and we believe our systems are redundant, there may be exceptions for certain hardware. In addition, we do not own or control the operation of these facilities. We also use Amazon Web Services and Google Cloud Storage to back up some data. Our systems and operations are vulnerable to damage or interruption from fire, flood, power loss, telecommunications failure, terrorist attacks, acts of war, electronic and physical break-ins, computer viruses, earthquakes, and similar events. The occurrence of any of these events could result in damage to our systems and hardware or could cause them to fail. In addition, we may not have sufficient protection or recovery plans in certain circumstances.

Problems faced by our third-party web hosting providers could adversely affect the experience consumers have while using our marketplace. Our third-party web hosting providers could close their facilities without adequate notice. Any financial difficulties, up to and including bankruptcy, faced by our third-party web hosting providers or any of the service providers whose services they use may have negative effects on our business, the nature and extent of which are difficult to predict. If our third-party web hosting providers are unable to keep up with our growing capacity needs, our business could be harmed.

Any errors, defects, disruptions, or other performance or reliability problems with our network operations could cause interruptions in access to our marketplace as well as delays and additional expense in arranging new facilities and services and could harm our reputation, business, operating results, and financial condition.

Although we carry business interruption insurance, it may not be sufficient to compensate us for the potentially significant losses, including the potential harm to the future growth of our business, that may result from interruptions in our service as a result of system failures.

***We collect, process, store, transfer, share, disclose, and use consumer information and other data, and our actual or perceived failure to protect such information and data or respect users' privacy could damage our reputation and brand and harm our business and operating results.***

Use of some functions of our marketplace involves the storage and transmission of consumers' information, such as IP addresses and contact information of users who connect with dealers and profile information of users who create accounts on our marketplace, and dealers' information. Some of this information may be private, and security breaches could expose us to a risk of loss or exposure of this information, which could result in potential liability, litigation, and remediation costs. For example, hackers could steal our users' profile passwords, names, email addresses, phone numbers, and zip codes. We rely on encryption and authentication technology licensed from third parties to effect secure transmission of such information. Like all information systems and technology, our websites, mobile application, and information systems may be subject to computer viruses, break-ins, phishing attacks, attempts to overload our servers with denial-of-service or other attacks, ransomware, and similar incidents or disruptions from unauthorized use of our computer systems, any of which could lead to interruptions, delays, or website shutdowns, and could cause loss of critical data and the unauthorized disclosure, access, acquisition, alteration, and use of personal or other confidential information. If we experience compromises to our security that result in website or mobile application performance or availability problems, the complete shutdown of our websites or mobile application, or the loss or unauthorized disclosure, access, acquisition, alteration, or use of confidential information, consumers and advertisers may lose trust and confidence in us, and consumers may decrease the use of our websites or stop using our websites entirely, and advertisers may decrease or stop advertising on our websites. Further, outside parties may attempt to fraudulently induce employees, consumers, or advertisers to disclose sensitive information in order to gain access to our information or our consumers' or advertisers' information. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently, often are not recognized until after being launched against a target, and may originate from less regulated and remote areas around the world, we may be unable to proactively address these techniques or to implement adequate preventative measures.

Any or all of the issues above could negatively impact our ability to attract new consumers and increase engagement by existing consumers, cause existing consumers to curtail or stop use of our marketplace or close their accounts, cause existing advertisers to cancel their contracts, or subject us to governmental or third-party lawsuits, investigations, regulatory fines, or other actions or liability, thereby harming our business, results of operations, and financial condition.

There are numerous federal, national, state, and local laws and regulations in the United States and around the world regarding privacy and the collection, processing, storing, sharing, disclosing, using, cross-border transfer, and protecting of personal information and other data, the scope of which are changing, are subject to differing interpretations, may be costly to comply with, may result in regulatory fines or penalties, may be inconsistent between countries and jurisdictions, and may conflict with other requirements.

We seek to comply with industry standards and are subject to the terms of our privacy policies and privacy-related obligations to third parties. We strive to comply with all applicable laws, policies, legal obligations, and industry codes of conduct relating to privacy and data protection, to the extent possible. However, it is possible that these obligations may be interpreted and applied in new ways or in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices and that new regulations could be enacted. Several proposals have recently become effective or are pending, as applicable, before federal, state, local, and foreign legislative and regulatory bodies that could significantly affect our business. The General Data Protection Regulation in the EU, which went into effect on May 25, 2018, has required, and may further require, us to change our policies and procedures and, if we are not in compliance, may seriously harm our business. Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to consumers or other third parties, or our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of sensitive information, which could include personally identifiable information or other user data, may result in governmental investigations, enforcement actions, regulatory fines, litigation, or public statements against us by consumer advocacy groups or others, and could cause consumers and dealers to lose trust in us, which could have an adverse effect on our business. Additionally, if any third party that we share information with experiences a security breach or fails to comply with its privacy-related legal obligations or commitments to us, such matters may put consumer or dealer information at risk and could in turn expose us to claims for damages or regulatory fines or penalties and harm our reputation, business, and operating results.

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

We may from time to time face allegations that we have infringed the trademarks, copyrights, patents, and other intellectual property rights of third parties, including from our competitors or non-practicing entities, or may learn of possible infringement to our trademarks, copyrights, patents, and other intellectual property. We could also be subject to lawsuits where consumers and dealers posting content on our websites disseminate materials that infringe the intellectual property rights of third parties. We have encountered lawsuits in the past containing allegations of intellectual property infringement. For example, in December 2015, Trader Corporation, or Trader, alleged that we infringed its copyright in 196,740 photos of cars that were uploaded onto our Canadian website. Trader sought statutory and punitive damages of approximately CAD $99 million along with a permanent injunction prohibiting us from reproducing any other photos in which Trader owns the copyright without Trader's consent. On April 6, 2017, the Commercial List of the Ontario Superior Court, or the Commercial List, granted an order declaring that we infringed Trader's copyright in 152,532 photos and awarded Trader statutory damages of CAD $305,064 in the aggregate, but dismissed Trader's claim for punitive damages and a permanent injunction. Following release of the decision, the parties agreed that there would be no legal fees or interest payable to either party. In addition, the parties agreed that neither would appeal the decision of the Commercial List.

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

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

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

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

Our business depends on our intellectual property, the protection of which is crucial to the success of our business. We rely on a combination of patent, trademark, trade secret, and copyright law and contractual restrictions to protect our intellectual property. In addition, we attempt to protect our intellectual property, technology, and confidential information by requiring our employees and consultants to enter into confidentiality and assignment of inventions agreements and third parties to enter into nondisclosure agreements as we deem appropriate. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our websites features, software, and functionality or obtain and use information that we consider proprietary.

Competitors may adopt service names similar to ours, thereby harming our ability to build brand identity and possibly leading to user confusion. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks, or trademarks that incorporate variations of the term “CarGurus.” If we are restricted in any way in registering our CARGURUS mark in international markets, it could impact our ability to establish and grow our business in Europe and other countries. For example, O2 Holdings Limited (now O2 Worldwide Limited, or O2 Worldwide), based in the United Kingdom, previously opposed our UK application to register the mark CARGURUS based on its prior registered rights for the mark GURU in the United Kingdom. We have reached an agreement with O2 Worldwide that permits us to continue to use our CARGURUS mark and logos in the United Kingdom and the EU for our services in the automotive field in the manner we have to date, and to register such mark in the United Kingdom and the EU for such services. However, the agreement with O2 Worldwide sets forth certain limitations on our use of the CARGURUS mark and logos in the United Kingdom and in the EU. Also, while we have registered the CARGURUS and CG logos in the EU, we are not able to register the word-mark CARGURUS in the EU as the mark was deemed to be non-distinctive, and thus unregisterable. We may be unable to register CARGURUS, the word mark, in any country in the EU, other than the United Kingdom. If we are unable to register the CARGURUS word mark in any country, it may limit our ability to challenge unauthorized users of marks that are the same as or similar to CARGURUS.

We currently hold the “CarGurus.com” internet domain name and various other related domain names. The regulation of domain names is subject to change. Regulatory bodies could establish additional top-level domains, appoint additional domain name registrars, or modify the requirements for holding domain names. As a result, we may not be able to acquire or maintain all domain names that use the name CarGurus. In addition, third parties may create copycat or squatter domains to deceive consumers, which could harm our brand, interfere with our ability to register domain names, and result in additional costs.

***We may acquire other companies or technologies, which could divert our management’s attention, result in additional dilution to our stockholders, and otherwise disrupt our operations and harm our operating results.***

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

- diversion of management time and focus from operating our business to addressing acquisition integration challenges;
- coordination of technology, product, research, and development, and sales and marketing functions;
- transition of the acquired company’s consumers and data to our marketplace and products;
- retention of employees from the acquired company;
- cultural challenges associated with integrating employees from the acquired company into our organization;
- integration of the acquired company’s accounting, management information, human resources, and other administrative systems;
- the need to implement or improve controls, procedures, and policies at a business that prior to the acquisition may have lacked effective controls, procedures, and policies;
- potential write-offs of intangibles or other assets acquired in such transactions that may have an adverse effect on our operating results in a given period;
- potential liabilities for activities of the acquired company before the acquisition, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities, and other known and unknown liabilities; and
- litigation or other claims in connection with the acquired company, including claims from terminated employees, consumers, former stockholders, and other third parties.

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

***Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information.***

In order to protect our technologies and processes, we rely in part on confidentiality agreements with our employees, independent contractors, and other advisors. These agreements may not effectively prevent disclosure of confidential information, including trade secrets, and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. Others may also independently discover our trade secrets and proprietary information, and in such cases we may not be able to assert our trade secret rights against such parties. To the extent that our employees, contractors, or other third parties with whom we do business use intellectual property owned by others in their work for us, disputes may arise as to the rights to related or resulting know-how and inventions. The loss of confidential information or intellectual property rights, including trade secret protection, could make it easier for third parties to compete with our products. In addition, any changes in, or unexpected interpretations of, intellectual property laws may compromise our ability to enforce our trade secret and intellectual property rights. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain protection of our trade secrets or other proprietary information could harm our business, results of operations, reputation, and competitive position.

***We may be unable to halt the operations of websites that aggregate or misappropriate our data.***

From time to time, third parties may misappropriate our data through website scraping, robots, or other means and aggregate this data on their websites with data from other companies. In addition, copycat websites may misappropriate data in our marketplace and attempt to imitate our brand or the functionality of our websites. If we become aware of such activities, we intend to employ technological or legal measures in an attempt to halt their operations. However, we may be unable to detect all such activities in a timely manner and, even if we could, technological and legal measures may be insufficient to halt their operations. In some cases, particularly in the case of entities operating outside of the United States, our available remedies may not be adequate to protect us against the impact of the operation of such websites. Regardless of whether we can successfully enforce our rights against the operators of these websites, any measures that we may take could require us to expend significant financial or other resources, which could harm our business, results of operations, and financial condition. In addition, to the extent that such activity creates confusion among consumers or advertisers, our brand and business could be harmed.

***We have incurred operating losses in the past and we may generate losses in the future.***

We have incurred net operating losses in the past. Although we did not experience such losses in fiscal year 2016 or 2017 and we have experienced significant growth in revenue, our revenue growth rate is likely to continue to decline in the future as a result of a variety of factors. Our international expansion may cause our costs to increase in future periods as we continue to expend substantial financial resources to enter into those markets. Our costs may also increase due to our continued new product development and general administrative expenses, such as legal and accounting expenses related to being a public company. If we fail to increase our revenue or manage these additional costs, we may incur losses in the future.

***Complying with the laws and regulations affecting public companies has increased and will continue to increase our costs and the demands on management and could harm our operating results.***

Now that we are a public company, we are incurring significant legal, accounting, and other expenses that we did not incur as a private company and these expenses are increasing as we will cease to be an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, as of December 31, 2018. In addition, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and rules subsequently implemented by the SEC and the Nasdaq Stock Market, or Nasdaq, impose various requirements on public companies, including requiring certain corporate governance practices. Our management and other personnel expect to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased and will continue to increase our legal, accounting, and financial compliance costs and have made and will continue to make some activities more time consuming and costly. For example, these rules and regulations have made it more difficult and more expensive for us to obtain director and officer liability insurance. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors or our board committees or as executive officers.

In addition, the Sarbanes-Oxley Act requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and the effectiveness of our disclosure controls and procedures quarterly. In particular, beginning with the year ending December 31, 2018, we will need to perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on, and our independent registered public accounting firm potentially to attest to, the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, or Section 404. As an emerging growth company, we have elected to avail ourselves of the exemption from the requirement that our independent registered public accounting firm attest to the effectiveness of our internal control over financial reporting under Section 404. However, we may no longer avail ourselves of this exemption when we cease to be an emerging growth company as of December 31, 2018 and, therefore our independent registered public accounting firm will be required to undertake an assessment of our internal control over financial reporting in our Annual Report on Form 10-K for the year ended December 31, 2018, and the cost of our compliance with Section 404 will correspondingly increase. Our compliance with applicable provisions of Section 404 will require that we incur substantial accounting expense and expend significant management time on compliance-related issues as we implement additional corporate governance practices and comply with reporting requirements.

***Failure to establish and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our stated operating results and harm our reputation.***

To comply with the requirements of being a public company, we have undertaken various actions, and may need to take additional actions, such as implementing new internal controls and procedures and hiring additional accounting or internal audit staff. Testing and maintaining internal control can divert our management's attention from other matters that are important to the operation of our business. While we are not currently required to comply with the rules of the SEC implementing Section 404 of the Sarbanes-Oxley Act and are therefore not required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose, as a newly public company, we are required to comply with the SEC's rules implementing Section 302 of the Sarbanes-Oxley Act, which require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of controls over financial reporting. Though we are required to disclose changes made in our internal controls and procedures on a quarterly basis, we are required to make only an annual assessment of our internal control over financial reporting pursuant to Section 404 for the fiscal year ending December 31, 2018, which is the first year immediately following our first annual report filed with the SEC.

As an emerging growth company, our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 until after we are no longer an emerging growth company. As a result of our market capitalization as of June 29, 2018 (and because we will have been a public company for at least 12 months and we have filed our 2017 Annual Report with the SEC), we will cease to be an emerging growth company as of December 31, 2018. Beginning with our Annual Report on Form 10-K for the year ending December 31, 2018, we will therefore be subject to the portions of Section 404 requiring our independent registered public accounting firm to provide an attestation report on the effectiveness of our internal control over financial reporting. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. Additionally, when evaluating our internal control over financial reporting, we or our independent registered public accounting firm may identify material weaknesses that we may not be able to remediate in time to meet the applicable deadline imposed upon us for compliance with the requirements of Section 404. Compliance with Section 404 will be expensive and time consuming for management and could result in the detection of internal control deficiencies of which we are currently unaware. Moreover, if we have a material weakness in our internal controls over financial reporting, we may not detect errors on a timely basis, and our financial statements may be materially misstated.

If we identify any material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner or to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to conclude that we have effective internal control over financial reporting once we are no longer an emerging growth company, our operating results may be harmed, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our Class A common stock could be materially adversely affected, and we could become subject to investigations by Nasdaq, the SEC or other regulatory authorities, which could require additional financial and management resources.

***Seasonality may cause fluctuations in our operating results.***

Across the retail automotive industry, consumer purchases typically increase through the first three quarters of each year, due in part to the introduction of new vehicle models from manufacturers, and our consumer-marketing spend grows accordingly. As consumer purchases slow in the fourth quarter, our rate of marketing spend typically also slows. This seasonality has not been immediately apparent historically due to the overall growth of other operating expenses. As our growth rates begin to moderate, the impact of these seasonality trends on our results of operations could become more pronounced.

***We expect our results of operations to fluctuate on a quarterly and annual basis.***

Our revenue and results of operations could vary significantly from period to period and may fail to match expectations as a result of a variety of factors, some of which are outside of our control. Our results may vary as a result of fluctuations in the number of dealers subscribing to our marketplace and the size and seasonal variability of our advertisers' marketing budgets. As a result of the potential variations in our revenue and results of operations, period-to-period comparisons may not be meaningful and the results of any one period should not be relied on as an indication of future performance. In addition, our results of operations may not meet the expectations of investors or public market analysts who follow us, which may adversely affect our stock price.

***Our management team has limited experience managing a public company.***

Most members of our management team have limited experience managing a publicly traded company, interacting with public company investors, and complying with the increasingly complex laws pertaining to public companies. Our management team may not successfully or efficiently manage our transition to being a public company that is subject to significant regulatory oversight and reporting obligations under the federal securities laws and the scrutiny of securities analysts and investors. These new obligations and constituents will require significant attention from our management team and could divert their attention away from the day-to-day management of our business, which could materially adversely affect our business, financial condition and operating results.

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

Although we have not needed to raise substantial equity in the past to support the growth of our business, we intend to continue to make investments to support our growth and may require additional capital to pursue our business objectives and respond to business opportunities, challenges, or unforeseen circumstances, including to increase our marketing expenditures to improve our brand awareness, develop new products, further improve our marketplace and existing products, enhance our operating infrastructure, expand internationally and acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. However, additional funds may not be available when we need them on terms that are acceptable to us or at all. Volatility in the credit markets may also have an adverse effect on our ability to obtain debt financing.

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

**Risks Related to Our Class A Common Stock**

***Our founder controls a majority of the voting power of our outstanding capital stock, and, therefore, has control over key decision-making and could control our actions in a manner that conflicts with the interests of other stockholders.***

Primarily by virtue of his holdings in shares of our Class B common stock, which has a ten-to-one voting ratio compared to our Class A common stock, Langley Steinert, our founder, Chief Executive Officer, President, and Chairman, is able to exercise voting rights with respect to a majority of the voting power of our outstanding capital stock and therefore has the ability to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation, or sale of all or substantially all of our assets. This concentrated control could delay, defer, or prevent a change of control, merger, consolidation, or sale of all or substantially all of our assets that our other stockholders support, or conversely this concentrated control could result in the consummation of such a transaction that our other stockholders do not support. This concentrated control could also discourage a potential investor from acquiring our Class A common stock, which has limited voting power relative to the Class B common stock, and might harm the trading price of our Class A common stock. In addition, Mr. Steinert has the ability to control the management and major strategic investments of our company as a result of his positions as our Chief Executive Officer, President, and Chairman, and his ability to control the election or replacement of our directors. As a board member and officer, Mr. Steinert owes a fiduciary duty to our stockholders and must act in good faith in a manner he reasonably believes to be in the best interests of our stockholders. If Mr. Steinert's status as an officer and director is terminated, his fiduciary duties to our stockholders will also terminate, but his voting power as a stockholder will not be reduced as a result of such termination unless such termination is either made voluntarily by Mr. Steinert, due to Mr. Steinert's death, or if the sum of the number of shares of our capital stock held by Mr. Steinert, by any Family Member of Mr. Steinert, and by any Permitted Entity of Mr. Steinert (as such terms are defined in our amended and restated certificate of incorporation), assuming the exercise and settlement in full of all outstanding options and convertible securities and calculated on an as-converted to Class A common stock basis, is less than 9,091,484 shares. As a stockholder, even a controlling stockholder, Mr. Steinert is entitled to vote his shares in his own interests, which may not always be aligned with the interests of our other stockholders.

We believe that Mr. Steinert's continued control of a majority of the voting power of our outstanding capital stock is beneficial to us and is in the best interests of our stockholders. In the event that Mr. Steinert no longer controls a majority of the voting power, whether as a result of the disposition of some or all his shares of Class A or Class B common stock, the conversion of the Class B common stock into Class A common stock in accordance with its terms, or otherwise, our business or the trading price of our Class A common stock may be adversely affected.

***The multiple class structure of our common stock has the effect of concentrating voting control with our founder and certain other holders of our Class B common stock, which will limit or preclude your ability to influence corporate matters.***

Our Class B common stock has ten votes per share and our Class A common stock has one vote per share. Stockholders who hold shares of Class B common stock, including certain of our executive officers, employees, and directors and their affiliates, together hold a substantial majority of the voting power of our outstanding capital stock. Because of the ten-to-one voting ratio between our Class B and Class A common stock, the holders of our Class B common stock collectively control a majority of the combined voting power of our common stock and therefore are able to control all matters submitted to our stockholders for approval so long as the shares of Class B common stock represent at least 9.1% of all outstanding shares of our Class A and Class B common stock. This concentrated control will limit or preclude your ability to influence corporate matters for the foreseeable future.

Transfers by holders of Class B common stock will generally result in those shares converting into Class A common stock, subject to limited exceptions, such as certain transfers effected for estate planning or charitable purposes. The conversion of Class B common stock into Class A common stock will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term. If, for example, Mr. Steinert retains a significant portion of his holdings of Class B common stock for an extended period of time, he could, in the future, continue to control a majority of the combined voting power of our outstanding capital stock.

***The price of our Class A common stock may be volatile and the value of your investment could decline.***

The trading price of our Class A common stock may be volatile and fluctuate substantially. The trading price of our Class A common stock depends on a number of factors, including those described in this "Risk Factors" section, many of which are beyond our control and may not be related to our operating performance. Factors that could cause fluctuations in the trading price of our Class A common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- sales of shares of our Class A common stock by us or our stockholders;
- failure of securities analysts to maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- announcements by us or our competitors of new products;
- the public's reaction to our press releases, other public announcements, and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our operating results or fluctuations in our operating results;
- actual or anticipated developments in our business, our competitors' businesses, or the competitive landscape generally;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- any significant change in our management;

- conditions in the automobile industry; and
- general economic conditions and slow or negative growth of our markets.

In addition, the stock market in general, and the market for technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may seriously affect the market price of our Class A common stock, regardless of our actual operating performance. In addition, in the past, following periods of volatility in the overall market and the market prices of a particular company's securities, securities class action litigations have often been instituted against these companies. Litigation of this type, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

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

The market price for our Class A common stock could decline as a result of the sale of substantial amounts of our Class A common stock, particularly sales by our directors, executive officers and significant stockholders, or the perception in the market that holders of a large number of shares intend to sell their shares. Sales of a substantial number of shares that recently became freely tradable following the expiration of lock-up agreements entered into in connection with our IPO, or the perception that such sales may occur, could also cause our market price to fall or make it more difficult for you to sell your Class A common stock at a time and price that you deem appropriate.

In addition, certain holders of shares of our Class A common stock have rights, subject to some conditions, to require us to file registration statements covering their shares of Class A common stock or to include their shares in registration statements that we may file for ourselves or our stockholders.

We also filed a registration statement to register shares of our capital stock reserved for future issuance under our equity incentive plans. As a result, subject to the satisfaction of applicable exercise periods, the shares of our Class A common stock issued upon settlement of vested RSUs or exercise of outstanding options to purchase shares of our capital stock will be available for immediate resale in the United States in the open market.

Sales of our Class A common stock as restrictions end or pursuant to registration rights may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. These sales could also cause the market price of our Class A common stock to decline and make it more difficult for you to sell shares of our Class A common stock.

***The exclusion of our Class A common stock from major stock indexes could adversely affect the trading market and price of our Class A common stock.***

Several major stock index providers have announced they will begin to exclude, or are considering plans to exclude, from their indexes the securities of companies with unequal voting rights such as ours. Exclusion from stock indexes could make it more difficult, or impossible, for some fund managers to buy the excluded securities, particularly in the case of index tracking mutual funds and exchange traded funds. The exclusion of our Class A common stock from major stock indexes could adversely affect the trading market and price of our Class A common stock.

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

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

- creating a classified board of directors whose members serve staggered three-year terms;
- authorizing "blank check" preferred stock, which may contain voting, liquidation, dividend, and other rights superior to our Class A common stock and which, from and after the date, referred to as the threshold date, on which the votes applicable to the Class A common stock and Class B common stock controlled by Mr. Steinert, represent less than a majority of the aggregate votes applicable to all shares of the outstanding Class A common stock and Class B common stock, could be issued by our board of directors without stockholder approval;
- limiting the liability of, and providing indemnification to, our directors and officers;
- limiting the ability of our stockholders to call and bring business before special meetings;

- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;
- limiting the ability, from and after the threshold date, of stockholders to amend our amended and restated certificate of incorporation;
- limiting the ability, from and after the threshold date, of stockholders to fill vacant directorships and remove directors; and
- prohibiting cumulative voting by stockholders.

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

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

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

***Our amended and restated certificate of incorporation includes a forum selection clause, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.***

Our amended and restated certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will, to the fullest extent permitted by law, be the sole and exclusive forum for any stockholder to bring: (i) any derivative action or proceeding brought on behalf of us; (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees or agents to us or to our stockholders; (iii) any action asserting a claim against us arising pursuant to any provision of the Delaware General Corporation Law or our amended and restated certificate of incorporation or amended and restated bylaws; (iv) any action to interpret, apply, enforce or determine the validity of our amended and restated certificate of incorporation or our amended and restated bylaws; or (v) any action asserting a claim against us or any of our directors, officers, or other employees or agents governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock is deemed to have notice of and have consented to the foregoing provisions. This forum selection provision in our amended and restated certificate of incorporation may limit our stockholders' ability to obtain a favorable judicial forum for disputes with us. It is also possible that, notwithstanding the forum selection clause included in our amended and restated certificate of incorporation, a court could rule that such a provision is inapplicable or unenforceable.

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

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

***We do not intend to pay cash dividends for the foreseeable future.***

We have never declared or paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any cash dividends in the foreseeable future. As a result, you may only receive a return on your investment in our Class A common stock if the trading price of your shares increases.

***Our status as a "controlled company" could make our Class A common stock less attractive to some investors or otherwise harm our stock price.***

More than 50% of our voting power is held by Mr. Steinert. As a result, we are a "controlled company" under the corporate governance rules for Nasdaq-listed companies. Under these rules, a company of which more than 50% of the voting power is held by an individual, a group or another company is a “controlled company” and may elect not to comply with certain Nasdaq corporate governance requirements, including:

- the requirement that a majority of our board of directors consist of “independent directors” as defined under the rules of Nasdaq;
- the requirement that we have a compensation committee that is composed entirely of directors meeting Nasdaq independence standards applicable to compensation committee members with a written charter addressing the committee’s purpose and responsibilities;
- the requirement that our compensation committee be responsible for the hiring and overseeing of persons acting as compensation consultants and be required to consider certain independence factors when engaging such persons; and
- the requirement that director nominees either be selected, or recommended for board of directors’ selection, either by “independent directors” as defined under the rules of Nasdaq constituting a majority of the board of director’s independent directors in a vote in which only independent directors participate, or by a nominations committee comprised solely of independent directors.

We have relied on certain or all of these exemptions. Accordingly, should the interests of our controlling stockholder differ from those of other stockholders, the other stockholders may not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance rules for Nasdaq-listed companies. Our status as a controlled company could make our Class A common stock less attractive to some investors or otherwise harm our stock price.

***We are an “emerging growth company,” and the reduced disclosure requirements applicable to emerging growth companies may make our Class A common stock less attractive to investors.***

We are an “emerging growth company,” as defined in the JOBS Act, and will remain an emerging growth company until we become a large accelerated filer as of December 31, 2018. For as long as we remain an emerging growth company, we are permitted and intend to rely on exemptions from some disclosure requirements that are applicable to other public companies that are not emerging growth companies. These exemptions include:

- being permitted to provide only two years of audited financial statements, in addition to any required unaudited interim financial statements, with correspondingly reduced “Management’s Discussion and Analysis of Financial Condition and Results of Operations” disclosure;
- not being required to comply with the auditor attestation requirements in the assessment of our internal control over financial reporting;
- not being required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements;
- reduced disclosure obligations regarding executive compensation; and
- exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

We have taken advantage of reduced reporting burdens in our public filings with the SEC. We cannot predict whether investors will find our Class A common stock less attractive because we rely on these exemptions. If some investors find our Class A common stock less attractive as a result, there may be a less active trading market for our Class A common stock and our stock price may be more volatile. In addition, the JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This allows an emerging growth company to delay the adoption of these accounting standards until they would otherwise apply to private companies. We have elected to avail ourselves of this exemption and, therefore, while we are an emerging growth company we will not be subject to new or revised accounting standards at the same time that they become applicable to other public companies that are not emerging growth companies.

***As of December 31, 2018, we will no longer be an “emerging growth company” and, as a result, we have begun incurring significant additional legal and financial compliance costs by having to comply with increased disclosure and governance requirements.***

As of December 31, 2018, as a result of our market capitalization as of June 29, 2018 (and our having been public for at least 12 months and our having filed our 2017 Annual Report with the SEC), we will be a large accelerated filer and we will cease to be an emerging growth company. Therefore, we will be subject to certain requirements that apply to other public companies but did not previously apply to us due to our status as an emerging growth company. These requirements include:

- the provisions of Section 404 requiring that our independent registered public accounting firm provide an attestation report on the effectiveness of our internal control over financial reporting;
- the requirement to provide detailed compensation discussion and analysis in proxy statements and reports filed under the Exchange Act; and
- the "say on pay" provisions (requiring a non-binding stockholder vote to approve compensation of certain executive officers) and the "say on golden parachute" provisions (requiring a non-binding stockholder vote to approve golden parachute arrangements for certain executive officers in connection with mergers and certain other business combinations) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, and some of the disclosure requirements of the Dodd-Frank Act relating to compensation of our Chief Executive Officer.

We have already begun incurring significant additional legal and financial compliance costs in connection with our forthcoming loss of emerging growth company status. We expect that our compliance with these additional requirements, including the provisions of Section 404, will continue to substantially increase our legal and financial compliance costs and make some activities more time consuming and costly.

**Item 6. Exhibits.**

The exhibits listed below are filed or incorporated by reference into this Quarterly Report.

| | | Incorporated by Reference | | | | |
|---|---|---|---|---|---|---|
| **Exhibit Number** | **Exhibit Description** | **Form** | **File Number** | **Filing Date** | **Exhibit Number** | **Filed Herewith** |
| 10.1# | CarGurus, Inc. Annual Incentive Plan. | 8-K/A | 001-38233 | April 6, 2018 | 10.1 | |
| 10.2 | Lease Agreement, dated as of June 19, 2018, by and between US Parcel A, LLC and CarGurus, Inc. | 8-K | 001-38233 | June 20, 2018 | 10.1 | |
| 31.1 | Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | | X |
| 31.2 | Certification of Principal Financial Officer and Principal Accounting Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | | X |
| 32.1* | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | | X |
| 32.2* | Certification of Principal Financial Officer and Principal Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | | X |
| 101.INS | XBRL Instance Document. | | | | | X |
| 101.SCH | XBRL Taxonomy Extension Schema Document. | | | | | X |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. | | | | | X |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. | | | | | X |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. | | | | | X |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. | | | | | X |

* The certifications furnished in Exhibit 32.1 and Exhibit 32.2 hereto are deemed to accompany this Quarterly Report and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.
# Indicates a management contract or compensatory plan.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**CarGurus, Inc.**

| | |
|---|---|
| Date: August 7, 2018 | By: /s/ Langley Steinert<br>Langley Steinert<br>Chief Executive Officer<br>*(Principal Executive Officer)* |
| Date: August 7, 2018 | By: /s/ Jason Trevisan<br>Jason Trevisan<br>Chief Financial Officer<br>*(Principal Financial and Accounting Officer)* |

**Exhibit 31.1**

**CERTIFICATION PURSUANT TO**
**RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,**
**AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Langley Steinert, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CarGurus, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2018

By: /s/ Langley Steinert
Langley Steinert
Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jason Trevisan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CarGurus, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2018

By: /s/ Jason Trevisan
Jason Trevisan
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of CarGurus, Inc. (the "Company") for the period ending June 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Langley Steinert, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 7, 2018

By: /s/ Langley Steinert
Langley Steinert
Chief Executive Officer
(Principal Executive Officer)

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of CarGurus, Inc. (the "Company") for the period ending June 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jason Trevisan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 7, 2018

By: /s/ Jason Trevisan
Jason Trevisan
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)